Budget 2014-2015

BUDGET PLAN

February 2014

Finances
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Québec

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Budget Plan

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BUDGET PLAN

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THE GOVERNMENT'S ECONOMIC AND FISCAL POLICY DIRECTIONS

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HIGHLIGHTS

Budget 2014-2015 confirms a return to fiscal balance in 2015-2016. It takes into account all new economic and financial data obtained since the November 2013 *Update on Québec's Economic and Financial Situation*.

This budget presents the policy directions necessary to restore fiscal balance and reduce the debt, as well as the actions that will be taken to promote job creation and economic growth in Québec.

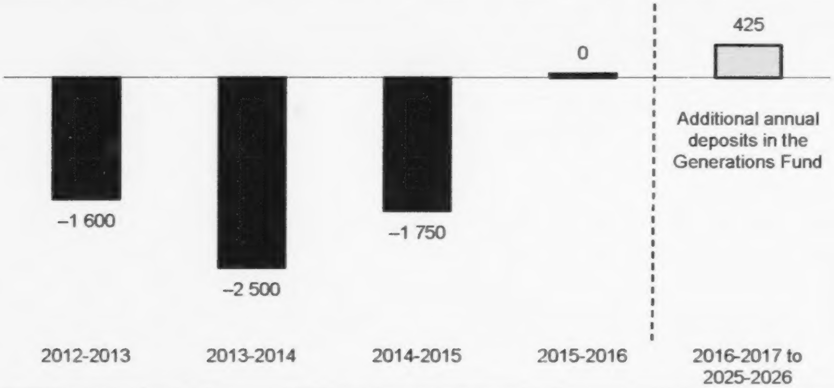
☐ Return to fiscal balance in 2015-2016

Budget 2014-2015 confirms the budgetary objectives set in the November *Update*, namely:

- anticipated deficits of $2.5 billion in 2013-2014 and $1.75 billion in 2014-2015;
- a balanced budget in 2015-2016 by pursuing rigorous expenditure control;
- avoidance of recourse to tax increases;
- full offset of the impact of additional deficits on the debt by making additional deposits in the Generations Fund;
- implementation of economic priorities in relation to *Québec's Economic Policy – Putting Jobs First*.

CHART A.1

Budgetary balance[1] from 2012-2013 to 2015-2016 and additional deposits in the Generations Fund starting in 2016-2017
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

❑ Rigorous expenditure control

Program spending increased by 1.2% in 2012-2013, the lowest increase in 15 years.

For 2013-2014, the level of program spending is being held at the level anticipated in March 2013, that is, $63 825 million.

For 2014-2015, growth in program spending stands at 2.0%.

For 2014-2015 to 2016-2017, the average rate of growth in program spending and consolidated expenditure is set at 2.0% and 2.1%, respectively.

❑ Debt reduction

The government is maintaining its debt reduction objectives. As indicated in the November 2013 *Update*, to ensure the attainment of those objectives, deposits in the Generations Fund will be maintained from 2013-2014 to 2015-2016 and will increase starting in 2016-2017.

The additional deposits will fully offset the impact on the debt of the deficits stemming from the two-year postponement of a return to fiscal balance.

❑ Québec's economic policy: new initiatives to support investment and employment

The government's economic vision is focused, in particular, on private investment as the key to future growth. In October 2013, the government released *Québec's Economic Policy – Putting Jobs First*, an integrated approach to creating jobs and supporting investment that will drive Québec's prosperity.

To pursue the efforts already deployed, Budget 2014-2015 includes initiatives to, in particular:

- ensure the development of Québec's mining and oil potential so that all Quebecers benefit by giving Ressources Québec strong mandates and clear directions that will enable it to move forward and contribute to Québec's economic growth;
- increase business financing and support business growth by putting in place the conditions needed to ensure long-term viability of the financing sources available to businesses as well as initiatives enabling them to invest and grow;
- continue supporting municipalities and the regions through a renewed Québec-municipalities partnership, specific initiatives for Montréal and Québec City, and additional assistance for the tourism accommodation industry outside these two major centres.

INTRODUCTION

This section of Budget 2014-2015 provides an overview of the government's fiscal policy directions.[1] It presents:

— recent developments in the economic and budgetary situation as well as the main changes since November 2013;

— the directions for attaining fiscal balance in 2015-2016;

— the government's five-year financial framework;

— a plan for responsible management of public spending.

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[1] Unless otherwise indicated, this document hinges on data available as of February 12, 2014. In addition, throughout this section, the budgetary data for 2013-2014 and subsequent years are forecasts.

1. THE GOVERNMENT'S FISCAL POLICY DIRECTIONS

This budget confirms the government actions announced in the November 2013 *Update* to attain fiscal balance in 2015-2016 and ensure Québec's economic development.

1.1 Economic situation

1.1.1 A still-fragile international economy

In the last few years, economic activity has reflected the sluggish global recovery since the recession. After rebounding in 2010 following the recession, global economic growth slowed.

— The impact of the latest financial crisis continued to affect the pace of growth in advanced economies. A number of advanced economies experienced a marked slowdown in inflation, reflecting weak domestic demand, among other things.

— Emerging countries, whose economies rely more extensively on exports, suffered the effects of slower growth in global demand. Some are also facing heavy capital outflow.

The international context thus remained fragile in 2013, with a global economic growth rate of 3.0%.

☐ Gradual acceleration in the economy, still marked by uncertainty

The global economy is gradually starting to recover. However, the recovery will be affected by lingering uncertainty, leading to gradual and moderate acceleration of the global economy to 3.5% in 2014 and 3.8% in 2015.

— The gradual strengthening of the economy will benefit from an improvement in the situation in advanced economies. Generally speaking, the latter will benefit from the attenuated impact of fiscal austerity measures and the household deleveraging process that has been taking place in the last few years.

— Emerging economies should also see stronger growth than in 2013, although at lower rates than before the last recession.

1.1.2 Change in Québec's economic situation

The weak global economy is mirrored in the economies of Québec's main trading partners, in particular Canada and the United States, which saw modest economic growth.

The Québec economy continued to expand at a moderate pace in 2013. Real GDP increased by 1.2% under the combined effect of export recovery and more modest growth in domestic demand. Accelerated growth at the end of the year led to a 0.3 percentage point upward adjustment in relation to the November 2013 *Update on Québec's Economic and Financial Situation*.

The economic outlook for Québec's main training partners is brighter for 2014, with real GDP expected to grow by 2.3% in Canada and 2.8% in the United States.

Benefitting from the improved situation in Canada and the United States, Québec's real GDP will increase by 1.9% in 2014 and 2015. This is a slightly higher growth rate than forecast in November 2013.

- Net exports will continue to make a positive contribution to real GDP growth thanks to the gradual improvement in the global economic climate and a Canadian dollar more favourable to exports.
- Growth in domestic demand will moderate, with government spending and the residential sector making a limited contribution.

TABLE A.1

Economic growth in Québec
(real GDP, percentage change)

	2013	2014	2015	Average 2013-2015
Budget 2014-2015	**1.2**	**1.9**	**1.9**	**1.7**
November 2013	0.9	1.8	1.8	1.5
Adjustment	+0.3	+0.1	+0.1	+0.2

Note: The figures have been rounded off, so they may not add up to the total indicated.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

☐ Marked deceleration in the consumer price index in 2013

Despite an improvement in economic conditions in the second half of the year, the consumer price index (CPI) grew at a much slower pace in 2013. After rising by 2.1% in 2012, it edged up just 0.7% in 2013. The GDP deflator followed the same trend, rising by only 0.9% in 2013 and thereby affecting nominal GDP growth.

The recently weak prices are not specific to Québec.

— In Canada, the CPI increased by 0.9% in 2013.

— Economic activity in most advanced economies, in particular the euro area and the United States, is changing against a backdrop of weak inflation.

Stronger global growth should lead to stronger demand, particularly in advanced economies, and that should increase pressure on prices. In Québec, inflation as measured by the GDP deflator is expected to accelerate to 1.6% in 2014 and 2.0% in 2015 and thus gradually return to values that are close to the historical average.

☐ Nominal GDP affected by weak prices

Affected by weak prices, nominal GDP rose by 2.1% in 2013. It should increase by 3.5% in 2014 and 3.9% in 2015, reflecting real GDP growth and the anticipated rise in inflation.

— However, inflation will increase more gradually than forecast in November 2013. Accordingly, despite the upward adjustment to real GDP growth, nominal GDP growth is being revised downward by one-tenth of a point for 2014. The forecast for 2015 is the same as the forecast in November.

TABLE A.2

Real GDP, GDP deflator and nominal GDP in Québec
(percentage change)

	2013	2014	2015	Average 2013-2015
Real GDP	**1.2**	**1.9**	**1.9**	**1.7**
Adjustment in relation to November 2013 *Update*	+0.3	+0.1	+0.1	+0.2
GDP deflator	**0.9**	**1.6**	**2.0**	**1.5**
Adjustment in relation to November 2013 *Update*	–0.4	–0.2	0.0	–0.2
Nominal GDP	**2.1**	**3.5**	**3.9**	**3.2**
Adjustment in relation to November 2013 *Update*	0.0	–0.1	0.0	0.0

Note: The figures have been rounded off, so they may not add up to the total indicated.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

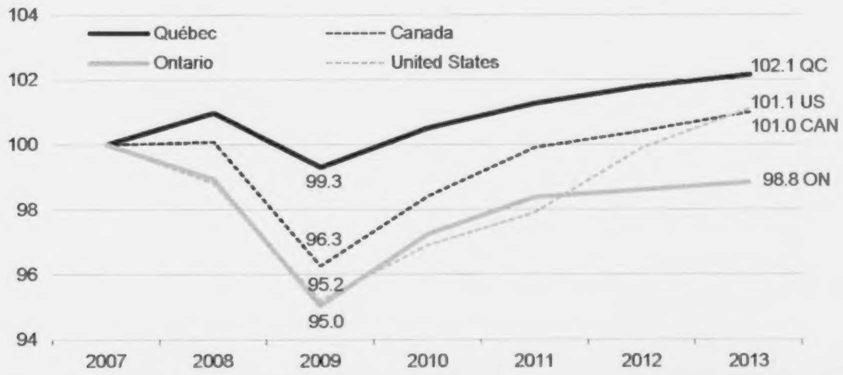
1.1.3 Consistent rise in the standard of living in Québec

Since 2007, Quebecers' standard of living has risen faster than that of Canadians, Ontarians and Americans.

— Between 2007 and 2013, real GDP per capita rose by 2.1% in Québec, compared with increases of 1.0% in Canada and 1.1% in the United States and a 1.2% contraction in Ontario.

CHART A.2

Per capita GDP
(index 2007 = 100, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada, Conference Board of Canada and Ministère des Finances et de l'Économie du Québec.

❑ Québec's labour market catches up to Canada's

Driven by employment-oriented public policies, Québec's labour market has improved over the last few decades.

— Its robust labour market has enabled Québec to substantially narrow and even close the gaps in relation to Canada in unemployment, employment and labour force participation rates.

TABLE A.3

Key labour market indicators – Population aged 15-64
(as a percentage)

	Unemployment rate		**Labour force participation rate**		**Employment rate**	
	Québec	**Canada**	**Québec**	**Canada**	**Québec**	**Canada**
1980	10.1	7.6	67.7	71.6	60.8	66.1
1990	10.5	8.2	72.9	76.6	65.3	70.3
2000	8.5	6.9	73.4	76.2	67.1	70.9
2010	8.0	8.1	77.3	77.8	71.1	71.5
2013	7.7	7.2	78.2	78.1	72.2	72.5

Source: Statistics Canada.

Despite the improvements, the standard of living of Quebecers remains below that of Canadians and Ontarians.

TABLE A.4

Per capita GDP
(dollars, in real terms)

	2007	**Gap (%)**	**2013**	**Gap (%)**
Québec	39 762	—	40 615	—
Ontario	46 834	17.8	46 291	14.0
Canada	47 613	19.7	48 087	18.4

Sources: Institut de la statistique du Québec, Statistics Canada, Conference Board of Canada and Ministère des Finances et de l'Économie du Québec.

☐ Productivity, a strategic factor in raising Quebecers' standard of living

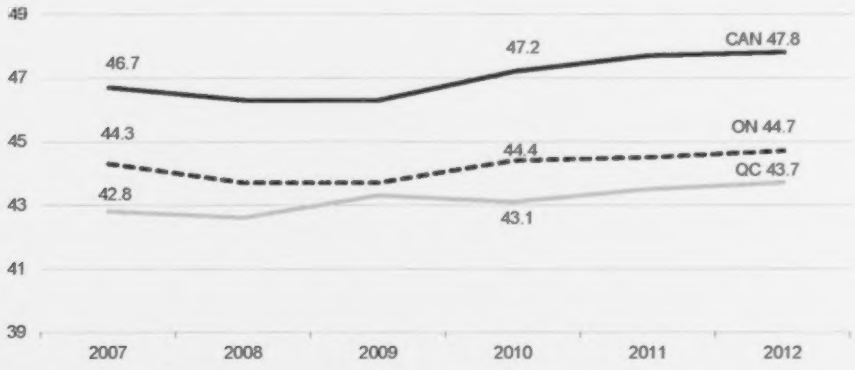
Québec businesses face increasingly stiffer international competition.

- — Although productivity gains have been made in recent years, there is still progress to be made.
- — Between 2007 and 2012, the average annual growth rate in labour productivity in Québec was 0.4%, a similar rate to that in Canada (0.5%), but higher than that in Ontario (0.2%).

However, Québec still has productivity gaps with both Ontario and Canada.

CHART A.3

Labour productivity in the business sector
(dollars per hour worked, in real terms)



Source: Statistics Canada.

■ Importance of investment

As the source of capital stock, investment plays a crucial role in improving productivity and competitiveness in an economy.

- — The capital stock available to workers improves labour productivity and thereby ensures job creation and a better standard of living for citizens.

☐ Private investment should continue to rally

Since 2011, Québec firms have followed the lead of governments in the area of non-residential investment, sustaining economic growth.

— Business investment rose by 12.0% in 2012 and 1.7% in 2013, reaching a value of $35.4 billion in 2013.

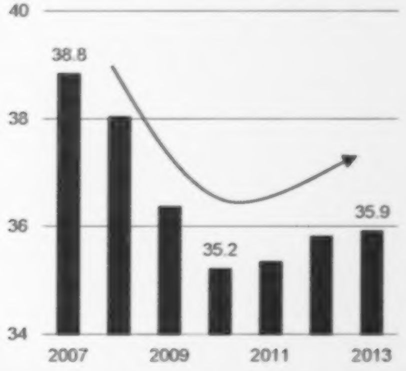
The heightened business investment led to, among other things, an increase in capital stock in the manufacturing sector. Moreover, this sector is dealing with greater competition from emerging economies.

Despite the increase in investment, capital stock in the manufacturing sector has still not reached pre-recession levels.

— In addition, despite the higher capital stock per worker, Québec is still nearly $2 000 per worker behind Ontario and approximately $9 000 behind Canada.

CHART A.4

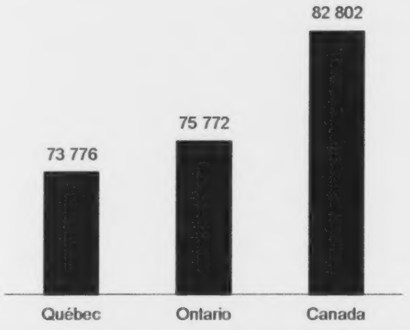
Capital stock in the Québec manufacturing sector
(billions of dollars, in real terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART A.5

Capital stock in the manufacturing sector in 2013
(dollars per worker, in real terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

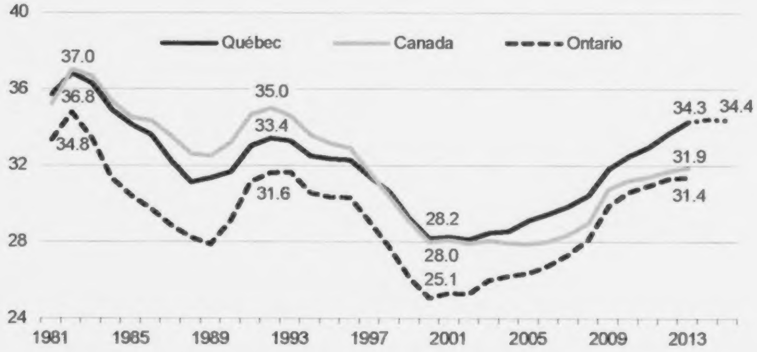
Québec's Economic Policy – Putting Jobs First contains a full range of measures to stimulate private investment. One of the objectives of this policy is to match the Canadian average in terms of investment in machinery and equipment per worker.

Sharp increase in public capital stock

The Québec government has set ambitious public investment targets. The Québec Infrastructures Plan served to increase public capital stock significantly over the last few years.

- The plan raised Québec's public capital stock as a percentage of real GDP from 28.2% in 2000 to 34.3% in 2013. It is expected to reach 34.4% in 2015 and remain at similar levels to the last peak 25 years ago.
- This was a greater increase than in Canada, where capital stock as a percentage of real GDP climbed from 28.0% in 2000 to 31.9% in 2013.

Public capital stock
(as a percentage of GDP, in real terms)



Sources: Statistics Canada, Conference Board of Canada and Ministère des Finances et de l'Économie du Québec.

1.2 Budgetary situation

1.2.1 Overview

Budget 2014-2015 confirms that fiscal balance will be restored as of 2015-2016 by pursuing rigorous expenditure control. In this regard, the financial framework of Budget 2014-2015 calls for:

- a $2.5-billion deficit in 2013-2014;
- a $1.75-billion deficit in 2014-2015;
- fiscal balance starting in 2015-2016.

As indicated in the November 2013 *Economic and Financial Update*, moderate growth in the economy combined with low inflation has led to a significant revenue shortfall.

- The initiatives required to offset last fall's adjustments to the financial framework starting in 2013-2014 and to attain fiscal balance as of this year would have been too major to be achieved without impeding economic growth.
- For example, restraint measures in the order of $2.5 billion would have represented an impact of roughly 0.7% of Québec's GDP.

In this context, the government made the responsible decision to postpone achieving budget balance for two years.

TABLE A.5

Summary of budgetary transactions – Budget 2014-2015
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY TRANSACTIONS			
Budgetary revenue	**69 817**	**71 583**	**74 621**
% change	*3.3*	*2.5*	*4.2*
Budgetary expenditure	**–72 335**	**–73 733**	**–75 127**
% change	*3.3*	*1.9*	*1.9*
Consolidated entities	**1 215**	**1 696**	**1 818**
Contingency reserves	–125	—	–200
Shortfall to be offset	—	—	530
SURPLUS (DEFICIT)	**–1 428**	**–454**	**1 642**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 072	–1 296	–1 642
BUDGETARY BALANCE(1)	**–2 500**	**–1 750**	**—**
As a % of GDP	***–0.7***	***–0.5***	**—**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

The deficits, which will be added to the debt, will total $4.25 billion.

However, as indicated in the November 2013 *Economic and Financial Update*, to avoid jeopardizing the attainment by 2025-2026 of its debt reduction objectives, the government will maintain the deposits in the Generations Fund from 2013-2014 to 2015-2016 and will increase them by $425 million a year starting in 2016-2017.

These changes will require amendments to:

- the *Balanced Budget Act* to account for the new fiscal deficit objectives;
- the *Act to reduce the debt and establish the Generations Fund* to stipulate the additional deposits.

Time frame for balancing the budgets of the provinces and federal government

Québec is not the only jurisdiction that has to contend with a deficit. This is also true of several other Canadian jurisdictions.

In 2009-2010, like Québec, the vast majority of the provinces, along with the federal government, established a time frame for restoring fiscal balance.

Several jurisdictions have revised this deadline since then.

- The majority of jurisdictions postponed the return to a balanced budget by two years.
  - New Brunswick, Newfoundland and Labrador and Nova Scotia have postponed their deadlines by three to five years.
- More specifically, in their 2013-2014 budgets, New Brunswick, Manitoba, Newfoundland and Labrador, Prince Edward Island and Alberta have postponed the return to a balanced budget.

Three provinces anticipate a return to a balanced budget in less time than Québec does.

Ontario and New Brunswick anticipate achieving fiscal balance in 2017-2018, i.e. within eight years.

Time frame for restoring fiscal balance
(years)

	Number of years anticipated to restore fiscal balance			Year in which fiscal balance is restored
	Initial	Revision	Total	
Nova Scotia	1	+3	4	2013-2014
British Columbia	2	+2	4	2013-2014
Alberta(1)	3	+2	5	2014-2015
Québec	**4**	**+2**	**6**	**2015-2016**
Federal government	4	+2	6	2015-2016
Prince Edward Island(2)	4	+2	6	2015-2016
Newfoundland and Labrador	2	+4	6	2015-2016
Manitoba(2)	5	+2	7	2016-2017
New Brunswick	3	+5	8	2017-2018
Ontario	6	+2	8	2017-2018

Note: The number of years anticipated to attain fiscal balance is calculated starting in 2009-2010, a recession year in which most Canadian jurisdictions recorded deficits. Saskatchewan has not recorded a deficit since 2009-2010.

(1) Deficit budget balance before the use of the stabilization reserve.

(2) The number of years necessary to restore fiscal balance was announced in 2010-2011.

1.2.2 Responsible management of spending in 2012-2013

The *Public Accounts 2012-2013* confirm that the government has managed spending in a responsible manner.

— The budget deficit for 2012-2013 was $1.6 billion, a difference of $100 million compared to the target figure.

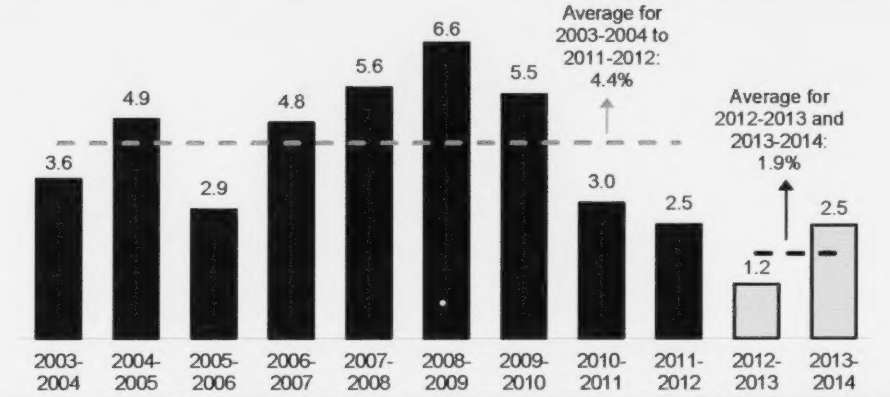
The government achieved the best performance of the past ten years from the standpoint of managing program spending.

— Program spending growth was held to 1.2% in 2012-2013, well below the average annual increase of 4.4% for the previous nine years.

These results were achieved through rigorous management of public spending while protecting public services. This approach made it possible to offset the loss of revenue caused by moderate economic growth and low inflation.

CHART A.6

Program spending growth from 2003-2004 to 2013-2014
(per cent)



Sources: *Public Accounts 2012-2013* and Secrétariat du Conseil du trésor.

2012-2013: Efforts totalling $1.5 billion

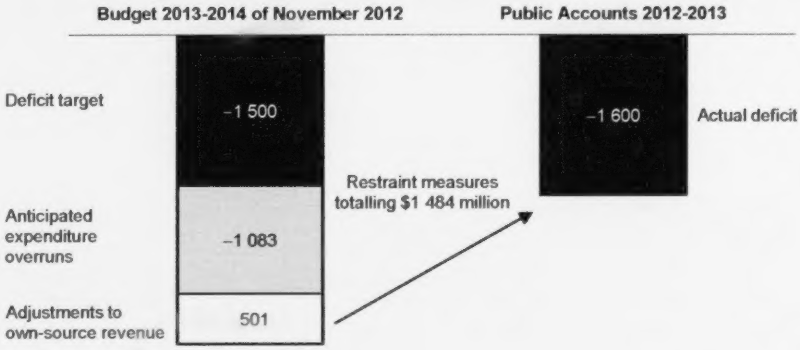
As soon as the government took office in September 2012, it faced a $1 584-million deficit stemming from:

- $1 083 million in anticipated expenditure overruns;
- a $501-million drop in own-source revenue.

During the year, the government implemented efforts totalling $1 484 million not only eliminated the budget impasse, but also met the spending target set for 2012-2013.

The results published in the *Public Accounts 2012-2013* indicate that the budgetary balance within the meaning of the *Balanced Budget Act* showed a deficit of $1.6 billion for fiscal year 2012-2013.

Deficit and restraint measures since September 2012 for 2012-2013
(millions de dollars)



Note: Budgetary balance within the meaning of the *Balanced Budget Act*.

1.2.3 Adjustments to the financial framework

Overall, the government's budgetary situation has improved since the November 2013 *Update*. Together, the adjustments:

— eliminate, as of 2014-2015, a recurring amount of $400 million of the shortfall to be offset;

— allocate $430 million to the financing of health care institutions;

— confirm the deficit targets for 2013-2014 and 2014-2015;

— confirm a balanced budget in 2015-2016.

TABLE A.6

Adjustments since the November 2013 *Update*
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY BALANCE – NOVEMBER 2013	**–2 500**	**–1 750**	**—**
Shortfall to be offset – November 2013	—	–400	–1 000
Adjustments related to the economy			
Own-source revenue	–39	–112	–212
Federal transfers	50	613	532
Subtotal	**11**	**501**	**320**
Quality and efficiency of public services			
Efforts by public bodies	—	150	—
Patient-based health care funding	—	–15	–40
Program spending(1)	—	—	—
Subtotal	**—**	**135**	**–40**
Financing of public services			
Financing of health care institutions	—	–430	—
Fight against tax evasion	—	37	51
Subtotal	**—**	**–393**	**51**
Debt service	73	78	125
Other adjustments(2)	41	79	14
Contingency reserves	–125	—	—
Shortfall to be offset – Budget 2014-2015	—	—	530
BUDGETARY BALANCE – BUDGET 2014-2015	**–2 500**	**–1 750**	**—**

(1) Budget 2014-2015 contains no new measures or enhancements of existing programs that would increase the program spending target.
(2) Excludes the Generations Fund.

☐ Adjustments related to the economy

Change in the budgetary situation since the November 2013 *Update* takes into account the following changes related to the economy:

— own-source revenue was revised downward by $39 million in 2013-2014, $112 million in 2014-2015 and $212 million in 2015-2016;

— federal transfers were revised upward by $613 million in 2014-2015 and $532 million in 2015-2016.

☐ Adjustments to expenditures

■ Program spending

Budget 2014-2015 contains no new measures or enhancements of existing programs that would increase the program spending target.

■ Improving the quality and efficiency of public services

The government will ask public bodies to continue their spending control efforts in 2014-2015, totalling $150 million.

In addition, the government wants to implement patient-based funding in the health care sector. To support this initiative, $15 million in 2014-2015 and $40 million starting in 2015-2016 will be earmarked for improving the health management information system to help improve the quality and efficiency of public services.

■ Ensuring funding for public services

For 2014-2015, the government will allocate $430 million to the Fund to Finance Health and Social Services Institutions (FINESSS) using the Canada Health Transfer (CHT).[2]

— Note that the government stated in the November 2013 *Update* that no additional tax would be allocated to FINESSS to fund expenditures of $430 million, revenue stipulated since the 2010-2011 Budget.

  — The previous government had planned to derive the additional funding from a health fee, which the current government decided not to implement.

— Considering its intent not to introduce a new tax or contribution to be deposited in FINESSS, during the coming year the government will reassess the financing methods for future FINESSS expenditures.

Lastly, the intensification of efforts to counter tax evasion will generate $37 million in additional revenue in 2014-2015 and $51 million in 2015-2016.

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[2] Allocation of this revenue to FINESSS is conditional upon legislative amendments.

❑ Other adjustments to the financial framework

Debt service has been adjusted downward by $73 million in 2013-2014, $78 million in 2014-2015 and $125 million in 2015-2016.

— The adjustment in 2013-2014 stems from the fact that interest rates were lower than anticipated.

— The adjustment in 2014-2015 is essentially due to the elimination of the contingency reserve specific to the debt service forecast, whereas the adjustment in 2015-2016 primarily stems from the postponement of the entry into effect of the accounting standard for currency translation (Section PS 2601) from April 1, 2015 to April 1, 2016.

The other adjustments to the financial framework include:

— positive adjustments to the results of consolidated entities;

— the environmental framework for hydrocarbons, in the amount of $1 million in 2014-2015 and $2 million in 2015-2016.

The contingency reserve stands at $125 million in 2013-2014 and may be used, in particular, to finance the costs of the tragedy in Lac-Mégantic.

❑ Adjustment to the shortfall to be offset

All of the adjustments reported since the November 2013 *Update* result in the elimination, as of 2014-2015, of a recurring amount of $400 million of the shortfall to be offset. In addition, the difference for 2015-2016, evaluated at $1 billion in the November *Update*, is now forecast at $530 million.

TABLE A.7

Shortfall to be offset
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
November 2013 *Update*	—	400	1 000	400	400	400
Adjustments	—	–400	–470	–400	–400	–400
BUDGET 2014-2015	**—**	**—**	**530**	**—**	**—**	**—**

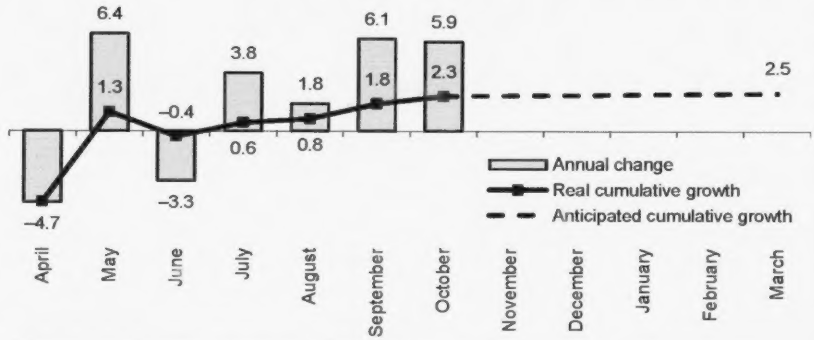
Anticipated change in revenue in 2013-2014

The anticipated growth in revenue in 2013-2014 will stand at 2.5%, a downward adjustment of 0.1 percentage point in relation to the growth forecast contained in the November 2013 *Update* (2.6%).

After increasing slightly at the beginning of the year, revenue displayed gradual improvement, in keeping with the new economic growth forecast.

Indeed, after seven months, i.e. from April to October, revenue growth stood at 2.3% in relation to the same period the previous year.

Real and anticipated cumulative growth[1] in own-source revenue – 2013-2014
(per cent)



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(1) For a given month, change in revenue since the beginning of fiscal year 2013-2014 in relation to the same period in 2012-2013.

Sources: Monthly report on financial transactions for the months from April to October. Ministère des Finances et de l'Économie forecasts for fiscal year 2013-2014 overall.

1.3 The government's financial framework

This section presents the government's financial framework:

- the financial framework from 2013-2014 to 2018-2019;
- the consolidated financial framework for 2013-2014 to 2018-2019.

❑ The five-year financial framework

The government's financial framework anticipates a return to a balanced budget in 2015-2016. It anticipates deficits of $2.5 billion in 2013-2014 and $1.75 billion in 2014-2015.

- Forecast growth in budgetary revenue is 2.5% in 2014-2015 and 4.2% in 2015-2016.
- Forecast growth in budgetary expenditure for the same years is 1.9%, making it possible to balance the budget in 2015-2016.
- Starting in 2017-2018, the pace of program spending growth will be brought into line with anticipated growth in revenue.

The financial framework includes contingency reserves starting in 2015-2016. Moreover, a $530-million shortfall needs to be offset for 2015-2016.

The anticipated deposits in the Generations Fund are being maintained until 2015-2016, and then increased annually by $425 million starting in 2016-2017 in order to fully offset the additional deficits stemming from the postponement by two years of the achievement of a balanced budget.

TABLE A.8

Financial framework from 2013-2014 to 2018-2019
(millions of dollars)

	2013-2014	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**	**2018-2019**
GENERAL FUND						
Budgetary revenue						
Own-source revenue	53 148	55 085	57 273	59 079	60 972	62 582
% change	*2.5*	*3.6*	*4.0*	*3.2*	*3.2*	*2.6*
Federal transfers	16 669	16 498	17 348	17 992	18 493	19 241
% change	*6.1*	*–1.0*	*5.2*	*3.7*	*2.8*	*4.0*
Total budgetary revenue	**69 817**	**71 583**	**74 621**	**77 071**	**79 465**	**81 823**
% change	***3.3***	***2.5***	***4.2***	***3.3***	***3.1***	***3.0***
Budgetary expenditure						
Program spending	–63 825	–65 132	–66 442	–67 802	–70 033	–72 226
% change	*2.5*	*2.0*	*2.0*	*2.0*	*3.3*	*3.1*
Debt service	–8 510	–8 601	–8 685	–8 971	–9 107	–9 285
% change	*9.6*	*1.1*	*1.0*	*3.3*	*1.5*	*2.0*
Total budgetary expenditure	**–72 335**	**–73 733**	**–75 127**	**–76 773**	**–79 140**	**–81 511**
% change	***3.3***	***1.9***	***1.9***	***2.2***	***3.1***	***3.0***
CONSOLIDATED ENTITIES						
Non-budget-funded bodies and special funds(1)	220	472	207	94	46	40
Health and social services and education networks	–77	–72	–31	8	29	48
Generations Fund	1 072	1 296	1 642	2 341	2 935	3 357
Total consolidated entities	**1 215**	**1 696**	**1 818**	**2 443**	**3 010**	**3 445**
Contingency reserves	–125	—	–200	–400	–400	–400
Shortfall to be offset	—	—	530	—	—	—
SURPLUS (DEFICIT)	**–1 428**	**–454**	**1 642**	**2 341**	**2 935**	**3 357**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 072	–1 296	–1 642	–1 916	–2 510	–2 932
Additional deposits in the Generations Fund	—	—	—	–425	–425	–425
BUDGETARY BALANCE(2)	**–2 500**	**–1 750**	—	—	—	—

(1) Includes consolidation adjustments.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE A.9

Consolidated financial framework from 2013-2014 to 2018-2019

(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Consolidated revenue						
Personal income tax	26 347	27 646	28 940	30 344	31 469	32 549
Contributions for health services	6 223	6 434	6 648	6 853	7 057	7 247
Corporate taxes	5 892	6 231	6 592	6 846	7 114	7 335
School taxes	1 729	1 832	1 957	2 124	2 201	2 248
Consumption taxes	17 067	17 369	17 916	18 042	18 403	18 580
Duties and permits	2 045	2 323	2 504	2 526	2 492	2 514
Miscellaneous	9 055	9 787	10 107	10 401	10 714	11 421
Government enterprises	5 121	5 053	4 999	5 004	5 050	5 045
Generations Fund	1 072	1 296	1 642	2 341	2 935	3 357
Own-source revenue	**74 551**	**77 971**	**81 305**	**84 481**	**87 435**	**90 296**
% change	***3.0***	***4.6***	***4.3***	***3.9***	***3.5***	***3.3***
Federal transfers	18 559	18 282	18 826	19 308	19 917	20 668
% change	*5.9*	*–1.5*	*3.0*	*2.6*	*3.2*	*3.8*
Total consolidated revenue	**93 110**	**96 253**	**100 131**	**103 789**	**107 352**	**110 964**
% change	***3.6***	***3.4***	***4.0***	***3.7***	***3.4***	***3.4***
Consolidated expenditure						
Expenditure	–83 643	–85 742	–87 481	–89 048	–91 576	–94 256
% change	*3.7*	*2.5*	*2.0*	*1.8*	*2.8*	*2.9*
Debt service	–10 770	–10 965	–11 338	–12 000	–12 441	–12 951
Total consolidated expenditure	**–94 413**	**–96 707**	**–98 819**	**–101 048**	**–104 017**	**–107 207**
% change	***4.3***	***2.4***	***2.2***	***2.3***	***2.9***	***3.1***
Contingency reserves	–125	—	–200	–400	–400	–400
Shortfall to be offset	—	—	530	—	—	—
SURPLUS (DEFICIT)	**–1 428**	**–454**	**1 642**	**2 341**	**2 935**	**3 357**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 072	–1 296	–1 642	–1 916	–2 510	–2 932
Additional deposits in the Generations Fund	—	—	—	–425	–425	–425
BUDGETARY BALANCE[1]	**–2 500**	**–1 750**	**—**	**—**	**—**	**—**

[1] Budgetary balance within the meaning of the *Balanced Budget Act*.

Prudence factor for the economic and budget forecasts

A number of jurisdictions apply a prudence factor to guard against risks associated with the economic or budget scenarios. Québec applies this factor in two ways:

- implicitly, through cautious economic forecasts that are equivalent to or below the average private sector forecast;
- explicitly, in the form of the contingency reserve. The explicit prudence factor covers the negative risks related to expenditure and revenue, which may stem from poor economic conditions.

The contingency reserve can fluctuate from year to year.

Québec's budget governance as underlined by the OECD

In December 2013, the OECD released the results of a study on budget governance by the federal government and each of the Canadian provinces.[1]

The analysis, which sought to determine whether the governments adopt proper institutional arrangements for budgeting, focused on five features:

- prudent economic assumptions and budgetary tools for dealing with unforeseen circumstances;
- medium-term budget frameworks and departmental implementation thereof;
- top-down techniques for setting expenditure ceilings and budget flexibility;
- focus on results;
- budget transparency.

Québec ranks second among the Canadian jurisdictions. The study highlights Québec's excellent practices in terms of frequent economic and financial updating.

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[1] OECD, "Budget governance in Canada: Comparing practices within a federation", *Journal on Budgeting*, vol. 13, December 2013, pp. 9-30.

1.4 Spending growth

1.4.1 Program spending

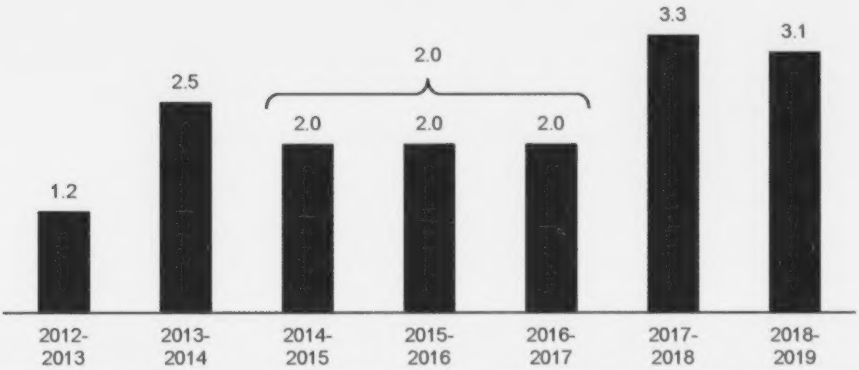
In 2012-2013, the government limited program spending growth to 1.2% through responsible management.

The pursuit of spending control in all government departments will enable achievement of the budgetary objectives. To that end:

- the spending target for 2013-2014 will remain at $63 825 million, the target set in the March 2013 *Update*;
- program spending growth will be held to 2.0% in 2014-2015 and the two following years;
- starting in 2017-2018, program spending growth will be equivalent to growth in budgetary revenue, i.e. an average growth rate of 3.2% in 2017-2018 and 2018-2019.

CHART A.7

Program spending growth
(per cent)



❑ Program spending by major sectors

In 2014-2015, program spending will increase by 2.0%, or $1 307 million, to $65.1 billion.

— Program spending for the Ministère de la Santé et des Services sociaux will rise by $938 million, a 3.0% increase.

— Spending allocated to the Ministère de l'Éducation, du Loisir et du Sport and the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie will be increased by a total of $493 million, or 3.0%.

— Spending by other departments will drop overall by $124 million, a 0.8% decrease.

TABLE A.10

Program spending
(millions of dollars)

			Change	
	2013-2014	**2014-2015**	($ million)	(%)
Santé et Services sociaux	31 258	32 196	938	3.0
Éducation(1)	16 596	17 089	493	3.0
Other departments	15 971	15 847	–124	–0.8
TOTAL	**63 825**	**65 132**	**1 307**	**2.0**

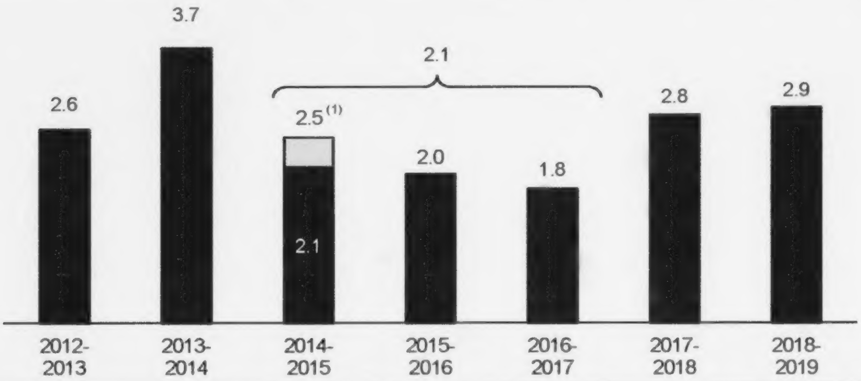
(1) Includes program spending allocated to the Ministère de l'Éducation, du Loisir et du Sport and the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie.

1.4.2 Consolidated expenditure

Average annual growth in consolidated expenditure excluding debt service will be 2.1% from 2014-2015 to 2016-2017.

CHART A.8

Growth in consolidated expenditure excluding debt service
(per cent)



(1) Attributable to the allocation of $ 430 million to FINESSS out of the CHT.

❑ Government health funding

In 2014-2015, spending on health will increase by 3.0% as a result of:

— a $938-million, or 3.0%, rise in spending on health programs;

— a $38-million increase in revenues drawn from the progressive health contribution and the tax increase for high-income earners;

— an allocation of $430 million to FINESSS from Canada Health Transfers (CHT).

Government health funding will have climbed by 4.0%, on average, between 2010-2011 and 2014-2015.

TABLE A.11

Government health funding from 2010-2011 to 2014-2015
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Program spending	**28 586**	**29 412**	**30 177**	**31 258**	**32 196**
% change	*3.8*	*2.9*	*2.6*	*3.6*	*3.0*
FINESSS EXPENDITURES					
Progressive health contribution[1]	252	609	925	702	718
Increase in tax rate for high-income earners	—	—	74	374	395
Subtotal	252	609	998	1 075	1 113
Allocation of part of the compensation for harmonization of the QST with the GST	—	—	—	430	—
Allocation of part of the health transfers (CHT)	—	—	—	—	430
Total – FINESSS	**252**	**609**	**998**	**1 505**	**1 543**
TOTAL	**28 838**	**30 021**	**31 175**	**32 763**	**33 739**
Change in million $	**1 304**	**1 183**	**1 154**	**1 588**	**976**
% change	***4.7***	***4.1***	***3.8***	***5.1***	***3.0***

(1) The health contribution has been progressive since January 1, 2013.

A more moderate and more stable approach to spending than elsewhere

The approach that Québec has adopted to ensure a return to a balanced budget is more moderate and more stable than elsewhere.

- Consolidated spending growth in 2014-2015 and 2015-2016 will stand at 2.5% and 2.0%.

Other jurisdictions in the rest of Canada have further limited growth in spending.

- British Columbia anticipates 1.7% growth in spending in 2013-2014 and 0.8% in 2014-2015, a slowdown in relation to 2012-2013.
- The federal government anticipates a reduction in spending for 2014-2015.
- Ontario will experience striking fluctuations in its spending growth rates, which will fall from 4.2% in 2013-2014 to 0.4% in 2015-2016.

Consolidated spending growth excluding debt service in certain jurisdictions
(per cent)

	2012-2013	2013-2014	2014-2015	2015-2016
Québec				
– Program spending	1.2	2.5	2.0	2.0
– Consolidated expenditure	2.5	3.7	2.5	2.0
Federal government	0.9	1.9	–0.4	2.7
British Columbia	2.9	1.7	0.8	2.0
Ontario	–0.4	4.2	1.1	0.4
Alberta	5.5	–3.0	2.1	2.0
Nova Scotia	3.5	3.6	–2.6	2.0

Source: Finance Canada.

☐ A sustainable weight of spending in the long term

In order to restore balance between expenditure and taxpayers' ability to pay, it is important to gradually restore expenditure to its historic weight in the economy.

— Between 1972 and 2012, consolidated expenditure as a percentage of GDP was 20.9% on average. In 2013-2014, the share of expenditure was 22.9%, or 2.0 percentage points higher.

The approach that the government has adopted will make it possible to gradually restore such balance without compromising economic recovery.

By 2017-2018, planned growth in spending will bring consolidated expenditure as a percentage of GDP to 21.7%.

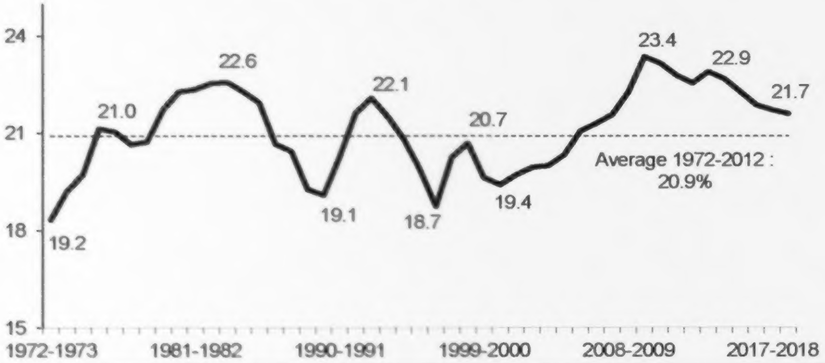
It is important to restore this balance to:

— prevent excessive spending from creating an onerous fiscal burden in relation to our neighbours, which could undermine tax competitiveness and limit economic growth in Québec;

— ensure that the government has the capacity during difficult economic times to finance increased spending that might be necessary to support the economy.

CHART A.9

Change in the share of consolidated expenditure(1),(2) in the economy
(as a percentage of GDP)



Note: Calculations of the Ministère des Finances et de l'Économie du Québec.
(1) Excluding debt service.
(2) Since 1997, the government has capitalized its investment spending and charges a corresponding expenditure to the depreciation of the capitalized asset.

1.5 Maintenance of the debt reduction objectives

As at March 31, 2014, the ratio of gross debt to GDP will be 54.3% and the ratio of debt representing accumulated deficits to GDP, 32.7%.

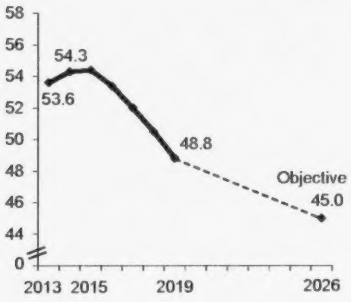
Three factors compel Québec to maintain the debt reduction objectives between now and 2025-2026:

- rapid aging of the population. This phenomenon is gradually exerting downward pressure on economic growth and, consequently, government revenues:
    - what is more, additional pressure is already being exerted on certain expenditures because of this phenomenon, in particular health care;
- a higher level of indebtedness. The weight of Québec's debt in the economy is the highest of the Canadian provinces. This high level of indebtedness significantly affects debt service:
    - the higher debt costs are, the less money there is to fund public services or the smaller the leeway to maintain Québec's tax competitiveness;
- a capacity to support the economy. Debt reduction must continue and even be accelerated in times of economic growth so that Québec is in a position to contend with an eventual recession.

CHART A.10

Gross debt as at March 31

(as a percentage of GDP)

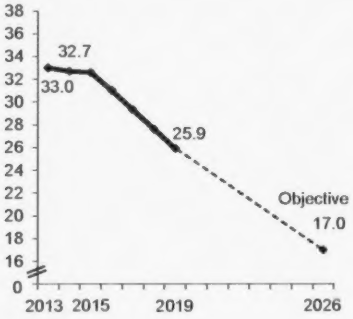


Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART A.11

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



☐ Additional deposits in the Generations Fund starting in 2016-2017

The impact of the deficits on the debt will require additional annual deposits of $425 million in the Generations Fund starting in 2016-2017.

Thus, as announced in the November 2013 *Update*, the additional deposits required to ensure compliance with the debt reduction objectives will be drawn from revenues stemming from the specific tax on alcoholic beverages, which represents a stable source of income.

TABLE A.12

Deposits in the Generations Fund
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019
Current deposits in the Generations Fund	1 642	1 916	2 510	2 932
Additional deposits drawn from revenue stemming from the specific tax on alcoholic beverages(1)	—	425	425	425
DEPOSITS IN THE GENERATIONS FUND	**1 642**	**2 341**	**2 935**	**3 357**

(1) These deposits will be added to the $100 million annual deposits in the Generations Fund starting in 2014-2015, as announced in Budget 2013-2014.

2. A PLAN FOR RESPONSIBLE MANAGEMENT OF PUBLIC SPENDING

Faced with a significant revenue shortfall, the government made, last fall, the responsible decision to postpone achieving budget balance for two years.

To restore fiscal balance, the government will avoid raising taxes and ensure that spending continues to be managed in a disciplined manner. Program spending growth is set at 2.0% for 2014-2015 and the following two years. Annual consolidated spending growth is set at an average of 2.1% for 2014-2015 to 2016-2017.

The government will achieve these objectives through a plan for responsible management of public spending that consists of three components:

- responsible remuneration of government employees;
- greater quality and efficiency in public services;
- improved funding for public services.

These principles are in line with the government's determination to provide more efficient services to the public, optimize the services provided per dollar spent by the government, and respect the population's ability to pay.

2.1 Taking action toward responsible remuneration

Rigorous spending management must necessarily take into account management of the government's global payroll cost. In 2013-2014, remuneration expenditures stand at $37.3 billion, representing 59% of government spending.

For the government, the remuneration challenge is twofold. It must take into account taxpayers' ability to pay, while enabling the state, as employer, to offer its employees competitive pay.

That is the context in which the government intends to reach the next pay agreements with its employees.

The weight of remuneration in government spending

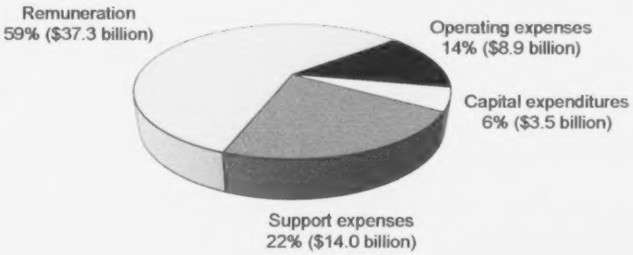
Remuneration includes the regular remuneration of employees and physicians, overtime and certain indemnities, fringe benefits and other employer contributions made by the government, such as the contribution to retirement plans, the Québec Pension Plan, the Health Services Fund, employment insurance and the Québec parental insurance plan.

Operating expenses include expenses incurred to carry out the programs of government departments and budget-funded bodies.

Capital expenditures include the amounts incurred to acquire, build, develop and upgrade capital property, including those relative to public-private partnership agreements.

Support expenses include transfers intended to provide financial assistance to recipients for purposes other than operations, remuneration, and principal and interest.

Program spending components – 2013-2014



Note: Doubtful accounts, savings to be realized by entities and anticipated lapsed appropriations are included in operating expenses.
Source: *Expenditure Budget 2013-2014* of the Secrétariat du Conseil du trésor.

2.1.1 The government's remuneration expenditures

The current pay agreement between the government and its 430 000 employees ends on March 31, 2015. For the new agreement, the government intends to set responsible remuneration with its employees.

Under the existing agreement, the payroll will have risen by average of 3.6% a year between April 1, 2010 and March 31, 2014. This rise is due, in particular, to pay increases, fees and other benefits granted.

TABLE A.13

Growth in government remuneration(1) from 2010-2011 to 2013-2014
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	Average (10-11 to 13-14)
Payroll	30 615	31 824	32 617	34 273	
% change	*2.8*	*3.9*	*2.5*	*5.1*	*3.6*

(1) Excluding retirement plans in particular.
Source: Secrétariat du Conseil du trésor.

☐ The next pay agreements

It is important for the offer of public services to be in keeping with the ability to pay of the government and its taxpayers. That is why the government wants to negotiate with its employees a fair and equitable agreement for all parties.

Economic growth is gradually picking up. Consequently, as in the case of government employees' existing collective agreement, pay increases may be adjusted based on the economy's performance and, consequently, government revenues.

Reminder of the most recent pay agreements

The most recent agreements entered into with government employees provided for:

- 6.0% indexing, over five years, of salary scales and the rate of remuneration;
- an increase tied to economic growth, which to date has meant a 0.5% increase paid in 2012-2013;
- a 1.0% increase tied to inflation, which could be paid as of March 31, 2015.

TABLE A.14

General salary indexing parameters
(per cent)

	April 1, 2010	April 1, 2011	April 1, 2012	April 1, 2013	April 1, 2014	March 31, 2015	Cumulative
Firm parameters	0.5	0.75	1.0	1.75	2.0	—	**6.0**
Increase tied to economic growth(1)	—	—	0.5	—	—	—	**0.5**
Increase tied to inflation(2)	—	—	—	—	—	1.0	**1.0**
TOTAL	**0.5**	**0.75**	**1.5**	**1.75**	**2.0**	**1.0**	**7.5**

(1) The increase paid could reach up to 3.5% over the last three years of the collective agreement, depending on economic growth.

(2) Under the agreement, if inflation exceeds the pay increases granted over the five years of the agreement (basic offer plus increase tied to economic growth), an adjustment of up to 1% will be applied on March 31, 2015.

2.1.2 Remuneration of physicians

In 2007 and 2011, the government entered into an agreement with each federation of physicians, the Fédération des médecins spécialistes du Québec (FMSQ) and the Fédération des médecins omnipraticiens du Québec (FMOQ). These agreements are in force until March 31, 2015.

— The pay raises provided for in the agreements were granted primarily to make up for the pay gap between Québec physicians and physicians practising elsewhere in Canada.

In particular, under the agreements, physicians' remuneration has risen by 67% from 2008-2009 to 2013-2014, an average annual increase of 8.9%. By comparison, during the same period, the remuneration of employees in the public and parapublic sectors has grown by 22%.

In 2013-2014, the remuneration envelope for some 18 000 physicians will reach nearly $6.1 billion.

CHART A.12

Growth in the remuneration of physicians and public and parapublic sector employees from 2008-2009 to 2013-2014
(per cent)

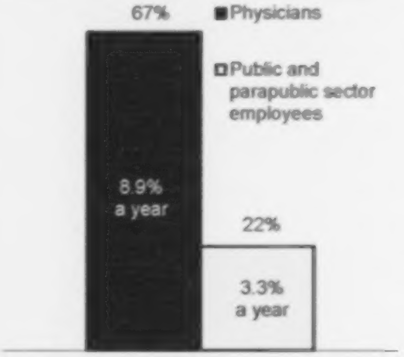
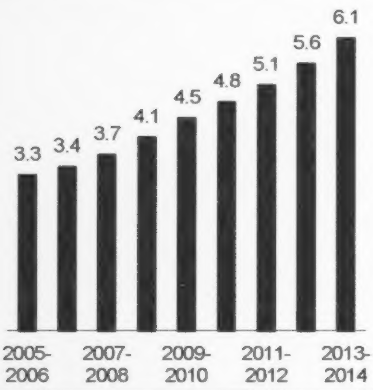


CHART A.13

Change in the remuneration of physicians since 2004-2005

(billions of dollars)



❑ The next pay agreements

By the time the existing agreements expire, physicians will have received substantial pay increases in recent years. Funding them will have required all Québec taxpayers to do their part.

Moreover, the government wants to reach a new, long-term agreement for the coming years that takes into account, in particular, maintenance of the significant remuneration gains and changes in remuneration compared with the rest of Canada.

In addition, as part of these discussions, the government would like to spread the planned increases for the next two years over a longer period in the long-term agreement.

— The amounts thus freed up will be allocated to health care.

2.2 Improving the quality and efficiency of public services

The quality and efficiency of public services are a priority for the government. Boosting productivity is not a concern specific to the business world. The government is doing everything possible to boost public service productivity.

Population aging and the shrinking labour pool anticipated in the coming years will put pressure on both the demand for public services and the government's ability to fund those services.

To improve the quality and efficiency of public services, the government plans to:

- bring in patient-based funding in the health and social services network;
- increase efficiency in the organization of services, for example in school boards;
- continue the spending effort requested of public bodies;
- ascertain the value of the public services offered;
- introduce new methods in order to better present budgetary information.

2.2.1 Patient-based funding in the health sector

The government wants to gradually bring patient-based funding into the health sector.

Reminder of the mandate given to a panel of experts

In the Budget Speech of March 20, 2012, the government undertook an important initiative with respect to the funding of the Québec health and social services sector, by setting up the Expert Panel for Patient-Based Funding.[3]

This step was aimed, in particular, at proposing ways of implementing patient-based funding formulas in the health network, in order to improve service access, quality, fairness and efficiency. In addition, concrete initiatives for applying the funding were to be identified in the health and social services network.

- Contrary to the funding of institutions based on global and historical budgets, patient-based funding establishes a direct link between the care provided to patients, the quality of the care and its funding.
- Patient-based funding includes a number of incentives designed to ensure that high-quality care is offered and delivered efficiently, and is underpinned by actual results.

Recommendations of the expert panel and the government's priorities

The expert panel submitted to the government its report, entitled *Pour que l'argent suive le patient : L'implantation du financement axé vers les patients dans le secteur de la santé*, in which it made recommendations with a view to the implementation of patient-based funding in the health and social services network.

In keeping with its pragmatic approach, the expert panel identified three concrete areas that should be prioritized for the introduction of patient-based funding:

- broadening of the access-to-surgery program in order to fund all surgeries on the basis of volume and quality;
- application of best practices to improve care quality under a best-practice funding program;
- taking charge of people with chronic illnesses through funding that facilitates care integration.

As proposed by the expert panel, the government will allocate amounts in a dedicated envelope to improve management information in the health sector.

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[3] This committee was initially called Groupe d'experts pour le financement à l'activité. In Budget Speech 2013-2014, the mandate of the expert panel was broadened and the panel's name was changed.

☐ Approach proposed by the expert panel for implementing patient-based funding

The Expert Panel for Patient-Based Funding proposed a gradual, structured implementation approach, comprised of several stages, that will take four years to carry out.

The government will explain soon how it intends to implement the report's recommendations.

ILLUSTRATION A.1

Implementation approach proposed by the panel of experts

	Broadening of the access-to-surgery program	Best-pratice funding program	Taking charge of people with chronic illnesses, through funding that facilitates care integration	Information systems and other requirements to be implemented
2014-2015	Simulate volume-and-rate-based funding Publish data on quality and access	Identify 4 to 6 procedures annually for implementation of best practices Prepare best-practice guides	Identify target populations and classification systems Track experiments in Québec and elsewhere Continue analyses for the use of funding to support Québec experiments	Identify development and conversion needs respecting information resources and adjustment needs respecting the legal framework Set up the teams needed to spearhead the shift to patient-based funding
2015-2016	Fund on a volume and rate basis Simulate quality-and-access-based funding	Upgrade institutions for procedures approved under the best-practice funding program		Produce the data architecture and analyses on the following work to be carried out: ▪ principal clienteles classification system ▪ centralized data warehouse ▪ normalized accounting system ▪ data cross-matching and analysis tools
2016-2017	Pay the full trajectory of care intra-institution	Pay institutions on a per-service basis for the new procedures chosen	Support the most promising initiatives for taking charge of people with chronic illnesses, by means of financial tools	Upgrade clinical and financial data, in particular for per-case costs and benchmarking Develop and implement over a few years, according to the conclusions of the analyses
2017-2018	Pay th full trajectory of care inter-institution	Pay on a best-practice basis for the new procedures chosen		

Source: Expert Panel for Patient-Based Funding, *Pour que l'argent suive le patient : L'implantation du financement axé vers les patients dans le secteur de la santé*, Québec, February 2014.

Concrete proposals for commencing implementation of patient-based funding in Québec

Advocating a pragmatic approach, the expert panel identified three concrete areas that should be prioritized for the introduction of patient-based funding.

Broadening of the access-to-surgery program: relying on the experience acquired in the field of surgery

The panel proposed that the access-to-surgery program, an activity-based funding program, be broadened for use in an initial application of patient-based funding and for a better fit with the main policy directions of the health system.

- The broadened program would cover almost the full surgical output.
- A mechanism would be introduced into the funding received by institutions to account for the quality of and access to health care.

Best-practice funding

The second priority application concerns care quality.

- Further to the experience of the Québec colorectal cancer screening program, the expert panel proposed that patient-based funding be used to promote best practices, thereby stimulating efforts to improve the quality of care.
- The objective would be to identify the priorities chosen for Québec as a whole with respect to clinical practices, and bolster their dissemination through funding defined according to best practices.

Taking charge of people with chronic illnesses: funding that facilitates care integration

In the view of the expert panel, using funding that facilitates care integration to assist in taking charge of people with chronic illnesses is the third priority application.

- Taking charge of people with chronic illnesses represents a challenge for Québec, owing in particular to population aging.
- Patient-based funding is a way to support and stimulate better service integration, a prerequisite for taking charge of people suffering from chronic illness.
- The expert panel proposed that the implementation of patient-based funding in this field start with concrete experiments backed by the required support.

❑ Better management information in the health sector

Access to clinical and financial information is crucial to improving the quality of care, properly monitoring access to services and fostering the efficiency of the health and social services sector.

This information is necessary to health management and adequate reporting.

High-quality clinical and financial information will optimize the benefits of every dollar spent by the government. This will result in benefits for both caregivers and patients.

In particular, the government wants to:

— support the implementation of patient-based funding in the health sector, in order to achieve the strategic objectives of the health and social services system, namely, access, quality, efficiency and fairness;

— support management by improving financial reporting in the health and social services network.

■ Assistance for the implementation of patient-based funding

In keeping with the expert panel's recommendations, the following will gradually become available in coming years further to investments in clinical and financial information resources:

— management tools such as per-case costs;

— integration of clinical and financial data to better monitor the quality and efficiency of health care delivery;

— applications enabling comparisons on the basis of recognized indicators.

Support for management by improving financial reporting

The availability of reliable financial data is key to financial management and reporting. Québec lags behind in certain areas in this regard.

- Due to multiple processing and cross-matching requests, it currently takes a lot of effort to produce financial reports and the time required is incompatible with management needs in the field.
- Québec is among the Canadian provinces that make their real health data available the latest.

To improve financial reporting, the government wants to modernize health information systems.

A reserve to fund modernization of information in the health sector

To support this initiative, the government will create a reserve to be administered by the Ministère des Finances et de l'Économie.

For this purpose, additional funding of $15 million for 2014-2015 and $40 million for 2015-2016 and subsequent years will be granted to the Ministère des Finances et de l'Économie. For 2014-2015, the amounts will be included in the expenditure budget of the Ministère des Finances et de l'Économie.

2.2.2 Greater efficiency in school boards

Québec has 72 school boards: 3 special-status school boards, 9 English school boards and 60 French school boards.

In 2013-2014, the expenditure budget allocated to school boards totals almost 10% of consolidated government expenditure. School boards, which account for a not negligible share of the government budget, see to the organization of education services, a determining factor in the social and economic development of Québec.

☐ Large per-student cost gap across school boards

Major disparities have been found in per-student costs in the various school boards.

In general, the bigger a school board, the lower its per-student costs, suggesting that grouping some of the boards would generate savings.

- The gap per student between school boards with 5 000 to 9 999 students and those with at least 35 000 students is over $1 000.

Although these disparities are explained by a number of factors, such as the presence of students with adjustment problems, remoteness and services for newcomers, the government is convinced that economies of scale are possible.

TABLE A.15

Per-student cost, by school board size – 2011-2012
(dollars per student)

Number of students	Teaching and training	Teaching support	Administration	Movable and immovable property	Total
0 to 4 999	5 806	2 921	970	1 071	**10 776**
5 000 to 9 999	5 248	2 424	622	836	**9 131**
10 000 to 14 999	4 981	2 051	521	674	**8 227**
15 000 to 24 999	4 951	2 118	458	671	**8 197**
25 000 to 34 999	4 632	2 058	438	669	**7 796**
35 000 and over	4 714	1 930	436	579	**7 659**
CSDM(1)	5 506	2 174	520	787	**8 987**

Note: The figures have been rounded off, so they may not add up to the total indicated.
(1) Commission scolaire de Montréal. 86 849 students in 2011-2012.
Source: Ministère de l'Éducation, du Loisir et du Sport.

❑ Continuing the efforts undertaken in Budget 2013-2014

The government believes it is possible to optimize governance of the education system by reorganizing services to benefit academic success. For example:

- adopting best practices, and sharing and merging services between school boards;
- revising the optimal number of school boards, taking into account geographic and social differences between regions;
- reconfiguring the role and responsibilities of the Ministère de l'Éducation, du Loisir et du Sport and of the network.

To that end, three core objectives underpin the government's approach:

- improve the efficiency of role- and responsibility-sharing, as well as the allocation of resources among the players in the education system, in keeping with economic realities in Québec;
- offer, out a concern for fairness, the same level of quality in education services, taking into account the make-up and needs of the school population;
- improve academic success, particularly through integration of the best practices emerging from the best-performing school boards.

A panel of experts was mandated to study the funding, administration, management and governance of school boards.[4]

Together with its partners, the government will examine, following the tabling of the report in the coming months, the structures and management of school boards, in an effort to reduce the amounts charged citizens and boost the organizational efficiency of the boards.

With this approach, the government evaluates that approximately $125 million could thus be freed up at term and reinvested in student services.

The examination will also be an opportunity for the government to improve supervision of the taxing power of school boards.

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[4] Groupe d'experts sur le financement, l'administration, la gestion et la gouvernance des commissions scolaires, the creation of which was announced on October 1, 2013.

2.2.3 An effort by public bodies

☐ Reduction in spending by bodies and special funds

Budget 2013-2014 provided that non-budget-funded bodies and special funds were to contribute to the fiscal effort by reigning in their spending growth.

Section 59 of the *Act respecting mainly the implementation of certain provisions of the Budget Speech of 20 November 2012* gave the Minister of Finance and the Economy and the Chair of the Conseil du trésor the power to set, for each of the fiscal years beginning in 2013-2014 and 2014-2015, spending reduction targets for bodies and special funds.

Thus, targets totalling $200 million were set for bodies and special funds for fiscal year 2013-2014.

As allowed under the Act, the government is renewing this measure, requiring bodies and special funds to cut their spending by $150 million for 2014-2015.

2.2.4 Assessment within five years of the value of public services delivered by government departments and bodies

The government wants to assess the efficiency of public services programs and their delivery.

More specifically, the following elements will be examined for all departments and bodies:

- effective pursuit of set objectives;
- ability to attain set objectives at the least cost, in particular using benchmarking with other jurisdictions;
- alignment between programs and Quebecers' priorities, taking into account the government's ability to pay;
- the timeliness of introducing new service financing methods;
- identification of solutions for improving quality.

During the next five years, the government will conduct a systematic examination of the value of every service delivered by each government department and body.

As in the case of most OECD member countries that undertook the same exercise, this examination will be fully integrated with the budgetary process.

In this way, potential savings will be identified in keeping with the financial requirements in order to launch new initiatives and with the imperative to meet spending objectives. The overall results of this exercise will be made public.

Continue the integration of Services Québec

The passage of the *Act to optimize government action in delivering public services to citizens and businesses* facilitates the administrative integration of Services Québec into the Ministère de l'Emploi et de la Solidarité sociale (MESS).

Services Québec administered 82 offices, while MESS has a network of 133 local employment centres in Québec's 17 administrative regions.

- Services Québec and Emploi-Québec were both present in 48 municipalities.

The combined network will improve the efficiency and quality of services.

2.2.5 Better presentation of budgetary information

❑ Three-year spending objectives by mission

In Table A.9 in this section of the Budget Plan, the government presents a consolidated financial framework from 2013-2014 to 2018-2019 that is comparable to the real data published in the government's consolidated financial statements.

When it published the economic and financial update in November 2013, the government affirmed its intention to maintain responsible spending, in particular by bolstering planning by government departments and public bodies.

To follow through on this commitment, the government intends to publish, as of Budget 2015-2016, global spending objectives, by mission, for a three-year period.

❑ Long-term forecasts

Under its fiscal policy, the government presents five-year financial forecasts. In a context of demographic change, more must be done.

— That is why, by Budget 2015-2016, the government will update its long-term forecasts, in collaboration with research groups.

2.3 Ensuring funding for public services

The available basket of public services is large and diversified. Some services are free, others are generally offered at a cost advantageous to Quebecers.

To ensure the funding and quality of public services, their rates must be set at the right level. In this regard, the government plans to:

- raise the parental contribution for childcare services;
- revise education cost-sharing for foreign university students.

2.3.1 Higher parental contribution for childcare services

❑ Ever-decreasing share of the parental contribution

Since 1997, the Québec government has been gradually making reduced-contribution childcare services available for children under five years of age. The network has developed at a steady pace, so that, over the past ten years, the amounts allocated to fund it have risen from $1.5 billion to $2.7 billion, an increase of over $1 billion.

The network is funded by both a government subsidy and a parental contribution. Initially set at $5 a day, the parental contribution has been raised only once, to $7 on January 1, 2004. Since then, it has accounted for an ever-decreasing share of network funding.

— As a result of the rate freeze in place since 2004, the parental contribution's share, which was approximately 20% in 1997, fell to 17.2% in 2004-2005 and to 13.4% in 2013-2014.

— To illustrate, in constant 2004 dollars, the $7-childcare rate would represent only $5.89 in 2014.

TABLE A.16

Change in the funding of reduced-contribution childcare services
(millions of dollars)

	2003-2004	2004-2005	2006-2007	2008-2009	2010-2011	2011-2012	2012-2013	2013-2014
Government subsidy	1 338	1 393	1 578	1 800	2 087	2 240	2 253	2 348
Parental contribution	210	289	317	333	350	356	357	364
Total funding	1 548	1 682	1 895	2 133	2 437	2 596	2 610	2 712
Share of the parental contribution (%)	**13.6**	**17.2**	**16.7**	**15.6**	**14.4**	**13.7**	**13.7**	**13.4**

Source: Ministère de la Famille.

☐ A contribution that now represents only a fraction of the daily cost

Although the government subsidy for a reduced-contribution childcare space rose on average from $29 in 2004-2005 to $40 in 2012-2013, the parental contribution remained unchanged, at $7, during that period.

— For example, the amount of the parental contribution per day in a childcare centre (CPE) now represents only 11.8% of the cost, that is, $7 out of total cost of $59.15 a day ($52.15 + $7).

— On the basis of 260 days a year, the parental contribution stands at $1 820, compared to a total cost of $15 379 in CPEs.

TABLE A.17

Change in the average government subsidy for a childcare space
(dollars per childcare day)

	2004-2005	2006-2007	2008-2009	2010-2011	2012-2013
CPE	37.80	42.28	47.80	50.75	52.15
Home childcare	21.35	19.67	20.60	25.17	26.93
Subsidized daycare	31.31	34.84	38.76	40.89	42.64
Weighted average	**29.23**	**30.84**	**34.11**	**37.82**	**39.69**

Source: Ministère des Finances et de l'Économie du Québec.

Report on the quality and continuity of childcare services

In October 2013, the Ministère de la Famille created a task force called Chantier sur la qualité et la pérennité des services de garde éducatifs à l'enfance et sur l'optimisation de leur financement.

The task force's mandate consisted in examining the governance and funding method of CPEs and coordinating offices and proposing possible solutions for optimizing investments in the network.

The task force pointed out the considerable growth in the network's budget, and made the following principal observations:

- financial positions that vary from one CPE to the next;
- a funding method that does not encourage economies of scale;
- a fixed parental contribution despite the significant increase in costs.

In their report, tabled in December 2013, the task force members proposed, among other things, to:

- consolidate organizational structures on a voluntary basis;
- revise the budget rules and optimize resources;
- raise and index the parental contribution so as to restore a fair balance between the parents' share and that of the government.

❑ A network on the path to completion, compounding the financial pressure

To meet parents' needs, budgets 2011-2012 and 2013-2014 announced the creation of 30 000 additional spaces. These are over and above the 220 000 spaces already available, bringing the total number of spaces to 250 000 on completion of the network.

TABLE A.18

Investments to create new spaces
(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	At term(1)
Number of spaces	661	4 005	13 070	22 043	30 000	30 000
Financial impact	**1**	**21**	**119**	**260**	**422**	**511**

(1) In 2017-2018.
Source: Ministère de la Famille.

The pledge to complete the network in December 2016, combined with the cost increase of the existing spaces, brings considerable extra financial pressure to bear. As a result, the parental contribution to the funding of the network must be revised.

— At term, these new spaces will represent recurring additional investments of over $500 million.

☐ A gradual increase in the contribution

To optimize the funding and ensure the continuity of childcare services, the government is announcing in this budget a gradual increase in the parental contribution from $7 to $9. This increase will be followed by rate indexing, as of September 2016, according to the annual variation in per capita disposable income. The parental contribution will be set as follows:

- $8 as of September 1, 2014;
- $9 as of September 1, 2015;
- $9.20[5] as of September 1, 2016.

TABLE A.19

$2 increase in the parental contribution over two years, with indexing to follow
(dollars per childcare day)

	Current rate	At September 1 of the year		
		2014	2015	2016[(1)]
Parental contribution	7.00	8.00	9.00	9.20

(1) Indexing according to the forecasted annual variation in per capita disposable income, that is, 2.3% in September 2016.
Source: Ministère des Finances et de l'Économie du Québec.

The increase in the parental contribution will boost the funding available to complete the network.

It will also raise the parental contribution by 13.4% to approximately 16% of childcare costs as a whole, a share that will remain below what it was in 2004-2005.

TABLE A.20

Financial impact of the $2 increase in the childcare rate over two years and of indexing
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Financial impact	32	90	125

Source: Ministère des Finances et de l'Économie du Québec.

The long phase of growing and developing the network continues, and the increase in the parental contribution, to be followed by rate indexing, will restore balance to the funding and foster a more harmonious development of the childcare service offer.

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[5] Indexation based on the annual change in personal disposable income. The planned rate of indexation in September 2016 is 2.3%. However, the actual rate will be determined in 2016.

2.3.2 Review education cost-sharing for foreign university students

The number of foreign students enrolled in Québec universities has swelled in recent years.

Recognizing the important contribution these students make to Québec's development, the government helps fund their education.

❑ Significant cost to the government

In 2011-2012, the cost of education for foreign students totalled $573 million, $318 million of which was funded by the government.

Several aspects of the fees payable need to be reviewed.

- For example, in 2011-2012, 20% of Canadian students who were not residents of Québec[6] and 49% of foreign students received exemptions.
  - The exemptions for foreign students totalled $132 million, or roughly one third of the total bill.
- Similarly, the tuition fees for some study programs in Québec, in particular administration, are significantly lower than in Ontario.

Consequently, tuition fees and exemptions – which have a limited impact on the number of graduates who remain in Québec – will be reviewed.

TABLE A.21

Cost of education to the government for foreign students and Canadian students from outside Québec – 2011-2012
(millions of dollars)

		Revenue			
	Total funding(1)	Revenue before exemptions(2)	Exemptions	Net revenue	Net public cost
Foreign	360	297	121	176	184
Canadian outside Québec	212	90	11	78	134
TOTAL	**573**	**387**	**132**	**254**	**318**

Note: The figures have been rounded off, so they may not add up to the total indicated
(1) Includes government funding and tuition fees paid by foreign students and Canadian students from other provinces.
(2) Includes tuition fees, the flat amounts paid by foreign students and Canadian students from other provinces, and the flat amounts that would have been paid had exemptions not applied.
Source: Calculations of the Ministère des Finances et de l'Économie du Québec based on data from the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie.

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[6] Exemptions are granted primarily to doctoral students, students enrolled in French language or French literature course, and medicine residents.

❑ Savings in the area of university funding

In the coming months, the government will review the fees payable by foreign students with a view to striking a better balance between the latters' contribution and that of the government.

While taking into consideration foreign students' capacity to pay, the sums saved will go toward university funding.

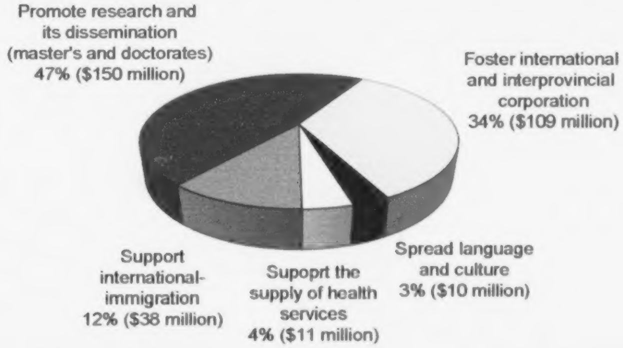
The government is looking at various options to enable savings of approximately $60 million annually. Even so, the cost of education for foreign students will still be among the lowest in North America.

Necessary objectives of a fee policy for students from outside Québec

Public funding of foreign students' education must be based on taxpayers' capacity to pay and the outcome in relation to the following five objectives:

- support international immigration;
- promote research and its dissemination;
- spread language and culture;
- foster international and interprovincial exchange and cooperation;
- support the supply of health services.

Breakdown of the $318-million public cost of education, by objective – 2011-2012



Source: Calculations of the Ministère des Finances et de l'Économie du Québec based on data from the ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie.

2.4 Fighting tax evasion

☐ New measures to fight tax evasion and unreported work

For a number of years, the government has been fighting tax evasion and unreported work in every sphere of the economy. Among other things, these efforts improve fairness for taxpayers who pay their full income tax and clean up business practices in certain sectors.

Despite the many initiatives implemented by the government, tax evasion, money laundering, collusion and corruption persist.

Consequently, to support its actions in the fight against tax evasion and step up recovery of the revenues owed to it, the government is announcing new initiatives aimed, in particular, at:

- stepping up controls, particularly in the construction industry;
- improving revenue collection through the installation of sales recording modules (SRMs) in bars and resto–bars.

In addition, the government is proposing to expedite penal case management.

These new initiatives will increase revenues by more than $60 million a year as of 2014-2015.

TABLE A.22

Revenue increase related to the new measures to fight tax evasion
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Stepped-up controls in construction	16	21	21
Installation of SRMs in bars and resto-bars	25	42	42
Expedited case management in financial penal matters and other actions	20	20	20
TOTAL	**61**	**83**	**83**

Source: Compilation by the Ministère des Finances et de l'Économie du Québec.

APPENDIX 1: FINANCIAL FRAMEWORK BY SECTOR

The financial framework by sector supplements the frameworks on pages A.26 and A.27. It presents revenue and expenditure attributable to the general fund and other categories of entities of the government's reporting entity.

TABLE A.23

Consolidated financial statement by sector from 2013-2014 to 2018-2019
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Revenue						
General fund	69 817	71 583	74 621	77 071	79 465	81 823
Special funds	9 923	10 476	10 722	11 188	11 457	11 807
Generations Fund	1 072	1 296	1 642	2 341	2 935	3 357
Non-budget-funded bodies	19 481	20 253	21 694	22 197	23 100	23 972
Health and social services and education networks	38 593	39 291	39 824	40 429	41 672	43 114
Specified purpose accounts	1 077	1 161	958	958	958	958
Tax-funded expenditure(1)	6 293	6 488	6 548	6 681	6 811	6 888
Consolidation adjustments(2)	–53 146	–54 295	–55 878	–57 076	–59 046	–60 955
Consolidated revenue	**93 110**	**96 253**	**100 131**	**103 789**	**107 352**	**110 964**
Expenditure						
General fund	–63 825	–65 132	–66 442	–67 802	–70 033	–72 226
Special funds	–8 495	–8 702	–8 708	–8 867	–8 821	–9 171
Non-budget-funded bodies	–18 285	–19 033	–20 566	–21 131	–22 058	–22 929
Health and social services and education networks	–37 759	–38 415	–38 795	–39 156	–40 204	–41 295
Specified purpose accounts	–1 077	–1 161	–958	–958	–958	–958
Tax-funded expenditure(1)	–6 293	–6 488	–6 548	–6 681	–6 811	–6 888
Consolidation adjustments(2)	52 091	53 189	54 536	55 547	57 309	59 211
Consolidated expenditure excluding debt service	**–83 643**	**–85 742**	**–87 481**	**–89 048**	**–91 576**	**–94 256**
Debt service						
General fund	–8 510	–8 601	–8 685	–8 971	–9 107	–9 285
Consolidated entities(3)	–2 260	–2 364	–2 653	–3 029	–3 334	–3 666
Consolidated debt service	**–10 770**	**–10 965**	**–11 338**	**–12 000**	**–12 441**	**–12 951**
Consolidated expenditure	**–94 413**	**–96 707**	**–98 819**	**–101 048**	**–104 017**	**–107 207**
Contingency reserves	–125	—	–200	–400	–400	–400
Shortfall to be offset	—	—	530	—	—	—
SURPLUS (DEFICIT)	**–1 428**	**–454**	**1 642**	**2 341**	**2 935**	**3 357**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 072	–1 296	–1 642	–1 916	–2 510	–2 932
Additional deposits in the Generations Fund	—	—	—	–425	–425	–425
BUDGETARY BALANCE(4)	**–2 500**	**–1 750**	—	—	—	—

(1) Includes doubtful tax accounts.

(2) The consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Includes consolidation adjustments.

(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

APPENDIX 2: OMNIBUS BILL

Some measures of the budget require legislative amendments. The Minister of Finance and the Economy will introduce an omnibus bill in the National Assembly during the spring 2014 parliamentary session. This bill will contain legislative amendments that are not of a fiscal nature. It will include the following measures, in particular.

❑ *Balanced Budget Act*

The *Balanced Budget Act* will be amended to set the budget deficit objectives for 2013-2014 and 2014-2015 and postpone the return to fiscal balance until 2015-2016:

- the deficit for 2013-2014 is set at $2.5 billion;
- the deficit will be trimmed to $1.75 billion in 2014-2015;
- the budget will be balanced starting in 2015-2016.

Furthermore, the legislative amendments will account for the $100-million overrun in relation to the objective of $1.5 billion set for 2012-2013 in accordance with the Act.

❑ *Act to reduce the debt and establish the Generations Fund*

The government will propose legislative amendments to the *Act to reduce the debt and establish the Generations Fund* to make additional annual deposits of $425 million in the Generations Fund starting in 2016-2017, drawn from revenue stemming from the specific tax on alcoholic beverages.

These contributions will be added to the $100 million per year as of 2014-2015 from the increase in the specific tax on alcoholic beverages, as announced by the government in Budget 2013-2014.

❑ Change to the Fund to Finance Health and Social Services Institutions (FINESSS)

Amendments will be made to the *Act respecting the Ministère de la Santé et des Services sociaux* to deposit $430 million from the Canada Health Transfer in the Fund to Finance Health and Social Services Institutions (FINESSS) in 2014-2015.

☐ Measures to fight tax evasion

■ Expand the use of sales recording modules in bars and resto-bars

Legislative amendments will be made to extend the installation of sales recording modules to bars and resto-bars, which is the logical extension of the measures taken in the restaurant sector.

■ Broadening of the attestation from Revenu Québec

Legislative amendments will be made to stipulate that, before entering into a construction, renovation or alteration contract, the contractor must obtain an attestation from Revenu Québec and provide it to the client. Certain conditions will apply.

☐ Legislating of governance best practices

The statutes of incorporation of tax-advantaged funds will be amended to strengthen and consolidate the principles of sound governance of their board of directors.

☐ Creation of Fonds Avenir Mécénat Culture

The *Act respecting the Ministère de la Culture et des Communications* will be amended to establish the Fonds Avenir Mécénat Culture and stipulate the terms of its financing. The sums deposited in the Fund will be used, in whole, to finance the Mécénat Placements Culture program administered by the ministère de la Culture et des Communications.

The bill will ensure the deposit of $5 million annually from the revenues of the specific tax on tobacco products in the Fonds Avenir Mécénat Culture starting in 2014-2015.

☐ Sports and Physical Activity Development Fund

The bill will enable an annual increase of $5 million from 2014-2015 to 2024-2025 in the amount from the revenues of the specific tax on tobacco products that will be deposited in the Sports and Physical Activity Development Fund.

☐ Increased funding for the mining activity management component of the Natural Resources Fund

The *Act respecting the Ministère des Ressources naturelles et de la Faune* will be amended so that the maximum amount of $2.5 million out of the sums from claim renewal fees allocated to the mining activity management component of the Natural Resources Fund is indexed annually using the indexation formula stipulated in the *Financial Administration Act*.

☐ Creation of the Fonds Capital Mines Hydrocarbures

The *Act respecting the Ministère des Finances* and the *Act respecting Investissement Québec* will be amended to authorize the creation of Capital Mines Hydrocarbures, a fund devoted to government investment in non-renewable natural resources.

Section B

ECONOMIC POLICY – PUTTING JOBS FIRST

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INTRODUCTION

The government's plan to restore fiscal balance is based on two major components: responsible spending control and an economic strategy that creates wealth while being sensitive to sustainable development and social justice. The government's economic vision is clear, consistent and ambitious.

In the 2013-2014 Budget Speech of November 20, 2012, the government set out the vision guiding how it acts on the economy.

This vision is based on private investment as the key to prosperity now and in the future. Private investment must follow the example of the major public investments made in recent years.

- Private investment is the basis for renewal and growth in the stock of business capital, thus raising worker productivity and making businesses more competitive on export markets.
- In particular, the recovery in manufacturing investment since 2011 must be accelerated if this sector, which is vital to the economy, especially regarding exports, research and development and regional dynamism, is to recover its pre-recession level of stock of capital. This will foster the creation of quality jobs.

The *Economic Policy – Putting Jobs First*, unveiled October 7, 2013 is an important step in achieving this vision. In particular, this policy is based on four strategic initiatives introduced during the fall of 2013:

- the National Research and Innovation Policy;
- Québec's Industrial Policy;
- the External Trade Development Plan;
- the Transportation Electrification Strategy.

Furthermore, the *Economic Policy – Putting Jobs First* stipulates four key measures to stimulate job creation. Accordingly, the government:

- is leveraging surplus electricity to attract investment and create jobs;
- is accelerating public investments to renovate schools and modernize community sports and recreation infrastructures;
- is implementing fiscal measures to stimulate investments by individuals and businesses;
- is continuing its investment in Northern infrastructures.

Lastly, the *Economic Policy – Putting Jobs First* includes sector-based initiatives targeting the forest, tourism and oil sectors.

As part of Budget 2014-2015, the government is reporting on the implementation of the *Economic Policy – Putting Jobs First* as well as providing details on the application of certain initiatives, in particular concerning:

- the new investment-job pricing offer;
- the development of natural resources for the benefit of all, specifically in the mining and oil sectors;
- the implementation and maintenance of effective financing tools, regarding both available capital and governance, to stimulate investment by businesses and thus foster their growth.

In addition, the government is aware that Québec's development depends on the contribution of communities and municipalities and it is reiterating the importance of a stong Québec-municipalities partnership by undertaking to:

- resume discussions on the new Québec-municipalities agreement;
- support Montréal and the national capital with promising projects.

Lastly, Budget 2014-2015 includes initiatives to:

- meet the needs of economically disadvantaged households through the construction of 3 250 new social, community and affordable housing units;
- boost support for Québec's cultural sector.

Many initiatives have been put into effect since the fall of 2012 to stimulate investment and employment

To foster investment and employment

Two fiscal measures designed to foster investment were announced in Budget 2013-2014, namely:

- the tax credit for large investment projects;
- the extension of and improvement to the tax credit for investments.

In addition, four strategic initiatives were announced as part of the *Economic Policy – Putting Jobs First*:

- National Research and Innovation Policy;
- Québec's Industrial Policy;
- the External Trade Development Plan;
- the Transportation Electrification Strategy.

To bolster the economic development of the regions and Northern Québec, in particular:

- the Politique de souveraineté alimentaire and increased support for the new generation of farmers;
- the Stratégie d'intervention gouvernementale pour le développement de la région Gaspésie–Îles-de-la-Madeleine;
- the National Policy on Rurality;
- the creation of the Secrétariat au développement nordique and the new policy direction for the development of Northern Québec.

For specific sectors of Québec's economy, the social economy and manpower:

- adoption of the *Act to amend the Mining Act;*
- implementation of the Plan de développement de l'industrie touristique with the deployment of the Programme d'appui au développement des attraits touristiques;
- the labour mobilization strategy Tous pour l'emploi: une impulsion nouvelle avec les partenaires;
- the allocation of 800 MW for new wind-power projects;
- the signing of a cooperation agreement in the aerospace sector between Aéro Montréal et Skywin Wallonie;
- the extension of the refundable tax credit for the development of e-business;
- the follow-up to the report of the Task Force on Cultural Philanthropy;
- sectoral legislation to recognize, promote and develop the social economy;
- support for investments in the biopharmaceutical industry, including the new Fonds de partenariat pour un Québec innovant et en santé;
- the Wood Charter.

1. INITIAL RESULTS OF THE *ECONOMIC POLICY – PUTTING JOBS FIRST*

The government's economic vision is based on a conviction: investment is necessary to maintain existing jobs and to create new ones, accelerate Québec's economic growth and raise everyone's standard of living.

To continue the efforts made since November 2012, the government unveiled the *Economic Policy – Putting Jobs First* on October 7, 2013. The economic policy put forward an action strategy that is clear and consistent, with specific and demanding targets:

- investment in research and development in excess of 3% of GDP;
- greater labour productivity growth to exceed the Canadian average;
- accelerated business investment per worker in machinery and equipment to exceed the Canadian average;
- exports to exceed 55% of GDP.

1.1 Major investment projects in Québec

The government expects that the measures taken as part of the *Economic Policy – Putting Jobs First* will support or trigger investments of $7.6 billion by 2017.

This will help create 43 050 jobs by 2017 over and above the new jobs already forecast.

- Accordingly, in all, 125 000 new jobs will be created over the next three years.

Budget 2014-2015 is thus an opportunity for the government to present the initial results of the *Economic Policy – Putting Jobs First* concerning:

- the results on investment and employment;
- the actions taken.

1.1.1 Investment projects worth $13.5 billion supported by the government since September 2012

Since September 2012, the government has been very active in fostering private investment projects.

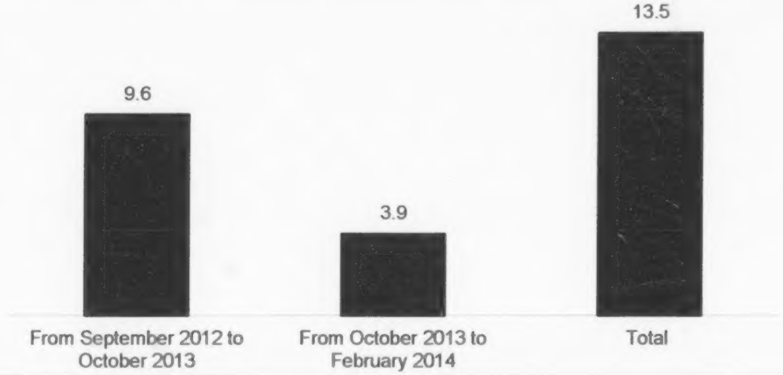
From September 2012 to February 2014, private investment projects amounting to nearly $13.5 billion have received government support, i.e.:

- $9.6 billion from September 2012 to October 2013;
- $3.9 billion from October 2013 to February 2014, i.e. after the introduction of the *Economic Policy – Putting Jobs First*.

These projects will help create or consolidate more than 33 000 direct jobs in Québec.

CHART B.1

Investment projects supported by the government since September 2012
(billions of dollars)



Main investment projects the Québec government has supported since September 2012

- AddÉnergie (investment of $21 million and creation of 100 jobs)
- Ciment McInnis (investment of $1 billion and creation of 400 jobs)
- FerroAtlántica (investment of $375 million and creation of 300 jobs)
- Aldo (investment of $363 million and creation of 400 jobs)
- RER Hydro (investment of $130 million and 600 direct and indirect jobs created)
- Pratt & Whitney Canada (investment of $275 million and 90 new jobs)
- Bridgestone (investment of nearly $40 million and consolidation of 1 300 jobs)
- Warner Bros. Games (investment of $63 million and creation of 100 jobs)
- Ubisoft (investment of $373 million and creation of 500 jobs in Montréal and investment of $29 million leading to the creation of 100 jobs in Québec City)
- Aerolia (investment of $82 million and creation of more than 170 jobs)
- Lockheed Martin (investment of $31 million and creation of 220 jobs)
- Danone (investment of $40 million and consolidation of 500 jobs)
- Indian Farmers Fertiliser Cooperative (investment of $1.2 billion and creation of 200 jobs)
- Ericsson (investment of $1.3 billion and 260 jobs created or consolidated)

1.1.2 New projects worth $3.9 billion in the wake of the *Economic Policy – Putting Jobs First*

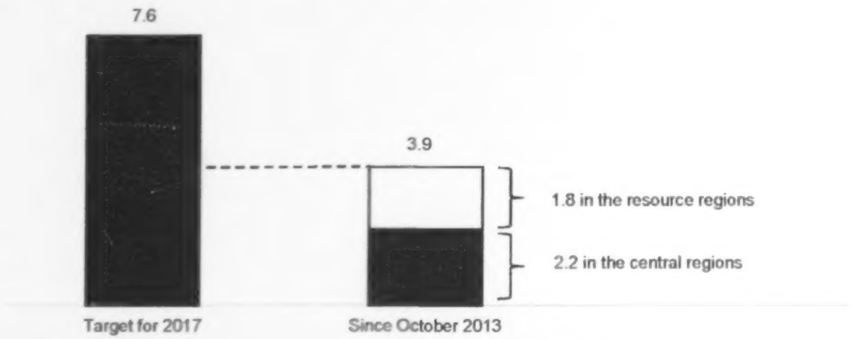
Since the *Economic Policy – Putting Jobs First* was announced, businesses have initiated investment projects, supported by the government, worth more than $3.9 billion. Of this amount, $1.8 billion is earmarked for the resource regions.

The investment projects announced since October 7, 2013 represent more than 51% of the $7.6 billion in investment the *Economic Policy – Putting Jobs First* is expected to generate by 2017.

These investment projects will help create or consolidate nearly 9 500 direct jobs.

CHART B.2

Investment projects supported by the government since the introduction of its economic policy
(billions of dollars)



Note: The figures have been rounded off, so they may not add up to the total indicated.

1.2 Measures supporting investment

Implementation of the *Economic Policy – Putting Jobs First* continues. The following fiscal measures designed to support investment by businesses and individuals took effect as soon as they were announced:

- the refundable tax credit for green renovation, ÉcoRénov, a 20% refundable tax credit for individuals together with the implementation of a new component of the Rénoclimat program;
- the reduction of the investment threshold to be entitled to the tax holiday for large investment projects, THI, from $300 million to $200 million;
- improvements to the tax credit for investments:
  - the increase of the higher rates of the tax credit by 10 percentage points for manufacturing SMEs in every region of Québec;
  - the broadening of the tax credit to certain expenditures relating to buildings for manufacturing SMEs in every region of Québec;
  - the broadening of the tax credit to production computer hardware for all businesses;
- the 25% tax credit on expenditures to integrate information technology in manufacturing SMEs.

Tax holiday for large investment projects – THI

A corporation that carries out an investment project of $200 million or more concerning an eligible activity sector may, under certain conditions, receive 10-year tax holiday. The holiday applies to the tax on corporate income from its eligible activities and to employer contributions to the Health Services Fund for the portion of wages paid attributable to the time devoted to such activities.

There is stiff international competition to attract such projects because they generate wealth and quality jobs. In addition, they help create indirect jobs with numerous subcontractors and suppliers who receive contracts during the construction and operation phases.

Two major projects, that may benefit from the THI, illustrate the impact of such a measure on investment and employment in Québec.

- The Ciment McInnis investment project, estimated at $1 billion, will lead to the creation of 2 300 jobs during the construction phase, beginning in the spring of 2014. In addition, some 400 jobs will be tied to the operation of the cement plant, scheduled for the spring of 2016.
- Construction of a new plant by the Spanish firm FerroAtlántica, the world's largest producer of silicon, will lead to investments of $375 million and the creation of more than 300 jobs.

1.3 Concrete actions to foster job creation and lay the foundations of an innovative and successful economy

Many of the measures announced in the *Economic Policy – Putting Jobs First* depend on mobilizing and encouraging a number of partners (businesses, institutions, government departments, organizations, etc.) to act jointly and will be launched during the year.

Some announcements have already given rise to concrete actions to bolster the economy and job creation.

Acceleration of public infrastructure projects

Pursuant to the *Economic Policy – Putting Jobs First*, the government has continued to accelerate public infrastructure projects. In particular, these projects target:

- school renovation;
- construction and renovation of community sports and recreation infrastructures;
- renovation and modernization of facilities managed by the Société des établissements de plein air du Québec (Sépaq).

Réno-Écoles, a plan to renovate schools

The Minister of Education, Recreation and Sports announced a number of projects on October 24, 2013. These projects were included under the *Economic Policy – Putting Jobs First*, in particular the Réno-Écoles plan that stipulates total investments ultimately reaching $430.4 million.

The 1 200 projects concerned are approved and calls for tenders will be issued in the near future so that the projects can be carried out during the spring and summer of 2014.

Construction and renovation of community sports and recreation infrastructures

The government has also set aside $130 million for sports and recreation infrastructures to encourage people to become more physically active.

Fifty-six projects in all will be moved forward, representing financial assistance of nearly $80 million. These projects will get underway in the near future.

Renovation and modernization of facilities managed by Sépaq

Sépaq has started 38 projects in 11 regions of Québec. The total budget allocated for these projects is $16 million.

Other projects are in the preliminary stage and the corresponding total commitments will be roughly $15.7 million over the coming months.

Concrete steps implementing the *Economic Policy – Putting Jobs First*

The government has made many announcements since October 7, 2013.

National Research and Innovation Policy (NRIP)

As part of the NRIP, work has started on implementing the main measures to meet the deadlines that have been set. Some announcements were made in recent weeks, in particular:

- a call for proposals, issued on January 6, 2014, for the recognition of three new college centres for technology transfer (CCTT), relating in particular to the priority fields targeted in the NRIP (aerospace, creative industries, bio-food, personalized health care, biotechnology, information and communications technologies, renewable energy and electrification of transportation):
  - CCTTs supply research and development, technical support and training services and each dollar invested by the Québec government in a CCTT generates an average contribution of $3.80 in new capital, fostering regional development;
- a call for project proposals, issued on January 9, 2014, under the Programme de soutien à la valorisation et au transfert:
  - the purpose of this program is to support projects designed to make research results or know-how operational for scientific, technological, social or organizational innovation purposes.

Québec's Industrial Policy

The fiscal measures designed for manufacturing companies have been in effect since October 2013. In addition, the government is continuing to work to attract private investment in every region of Québec.

Moreover, on October 28, 2013, the Minister of Natural Resources announced financial assistance of $400 million to set up ÉcoPerformance and Technoclimat, two new energy efficiency programs designed for businesses. They will help businesses reduce their greenhouse gas emissions.

ÉcoPerformance and Technoclimat focus on innovation in the transportation sector as well as in the industrial, commercial and institutional areas and are fostering the creation of more than 11 000 high-quality jobs.

Transportation Electrification Strategy

Implementation of the Transportation Electrification Strategy is underway. It comprises 41 projects and measures to be implemented from now until 2017.

Accordingly, on November 22, 2013 the Premier of Québec announced Volvo's City Mobility project in Montréal.

- The government expects to provide financial assistance of almost $12 million for this innovative pilot project that will equip Montréal with fully electric buses using an advanced-technology charging method. The buses will be made in Québec by Nova Bus, a North American subsidiary of Volvo.

Concrete steps for the implementation of the *Economic Policy – Putting Jobs First* (continued)

The Premier of Québec also announced, on February 6, 2014, an initial manufacturing project involving an investment of almost $21 million over five years.

- The project, involving the company AddÉnergie, consists in building an assembly plant, in Shawinigan, for electric vehicle charging stations. The project will ultimately generate 100 jobs.

External Trade Development Plan (ETDP)

In November 2013, Export Québec signed a second financing agreement, for $5.1 million, with Expansion Québec to open nine more business offices (incubators) throughout the world by 2016 to help businesses become established in markets outside Québec.

In December 2013, the Premier of Québec and the French Minister of the Economy and Finance announced the creation of a France-Québec working group on the electrification of transportation. The group is expected to foster cooperative projects under, in particular, the ETDP in support of international economic cooperation projects in the electro-mobility sector.

Forest sector

On January 31, 2014, the government announced $147 million for sylvicultural businesses to carry out non-commercial work.

The Rendez-vous national de la forêt québécoise, to which all the players of the wood industry were invited, was held in Saint-Félicien on November 21 and 22, 2013.

- A total of $675 million will be allocated to support the forest sector over the next three years to deal with the various issues identified by partners in the sector.

1.4 New investment-job pricing offer

As part of Québec's *Economic Policy – Putting Jobs First*, the government has announced a measure to take advantage of surplus electricity, the investment-job pricing offer.

- FerroAtlántica's decision to invest in Québec is a concrete result of this policy, with the reduction in electricity rates being a key factor in company's decision.

In this regard, the government is making 50 TWh available over the coming years to quickly stimulate investment and job creation. The objective of the pricing offer is to use this leeway to foster the creation of 10 000 jobs.

Accordingly, businesses that carry out new investment projects involving additional electricity consumption will receive a reduction in their electricity rate.

The government, Hydro-Québec and Investissement Québec are mandated to implement the investment-job pricing offer.

In this regard, Hydro-Québec filed its 2014-2023 procurement plan with the Régie de l'énergie on November 8, 2013.

- Surplus electricity now amounts to nearly 75 TWh over the period covered by the plan.

Following work in recent months, and in view of the adjustment to the amount of available surpluses, the government is reviewing the terms and conditions of the pricing offer to bolster project eligibility, in the manufacturing sector in particular. Accordingly, the pricing offer:

- will apply to new loads of 2 MW or more;
- will consist of a reduction schedule applying to exising rates associated with the business's consumption levels;
- will include a gradual return to the regular rate;
- will be granted for 10 years or until the surpluses available for the investment-job pricing offer (50 TWh) are exhausted.

The government will continue with the necessary steps to act on these orientations. Legislative amendments may be considered.

❑ The rate reductions will apply to new loads of 2 MW or more

To stimulate more projects in every region of Québec, the minimum load threshold will be reduced from 15 MW to 2 MW.

As a result, the investment-job pricing offer will be accessible to more businesses and projects since it will target many sectors, from the primary sector to the tertiary sector.

In addition, the 2 MW threshold means more businesses already established in Québec will be able to benefit from the pricing offer as part of a project to increase production.

— The new threshold will make it possible for a business to increase the production of an existing plant and benefit from the reduction on the additional electricity consumption.

❑ Oversight fostering projects that generate more economic spinoffs

The size of the reduction a business receives will be directly tied to its project's spinoffs for Québec's economy. The reductions will be adapted to foster development projects with high value-added for Québec and that create quality jobs.

The principles of the rate schedule are:

— encourage projects with significant economic spinoffs in Québec, generating activities for Québec suppliers and fostering the processing of raw materials in Québec;

— foster projects that create quality jobs optimizing spinoffs for a large number of Quebecers;

— target projects with minimum energy intensity;

— ensure fair competition between new investment projects and established businesses so that their existence is not threatened;

— maintain electricity rates for existing activities;

— not lead to higher electricity rates for other categories of consumers.

❑ A long-term development vision

The investment-job pricing offer will seek to ensure that businesses that benefit from it stay in Québec in the long term.

The support will be provided in such a way as to enable the business to limit the cash required to initiate the investment project. Accordingly, the reductions will stay at their maximum level during the initial years of operation. Thereafter, they will gradually decrease, with the regular rate applying as of the 11th year.

2. NATURAL RESOURCES: ADDITIONAL MEASURES BENEFITING ALL QUEBECERS

Natural resources development is a source of prosperity and job creation and provides an opportunity to improve Québec's trade balance.

Québec has large and diversified mineral resources. The outlook for growth on the world market is positive for this sector that already contributes to our exports. Support for investment in this sector must be continued while ensuring that Québec derives maximum benefit therefrom.

Moreover, one of the government's priorities is to foster Québec's energy independence, by reducing our consumption of oil and gas, including oil from outside Québec.

— In this regard, as part of the *Economic Policy – Putting Jobs First*, the government has decided to take responsible and an environmentally sensitive steps to confirm the presence of onshore oil resources in Québec.

Accordingly, the government will take the necessary action to ensure the development of Québec's mining and oil potential so that all Quebecers benefit.

The government, in carrying out this initiative, will rely on Ressources Québec, a subsidiary of Investissement Québec whose mission in particular is to contribute to Québec's economic development.

— Ressources Québec's objective is to support the best investment projects by taking on part of the risk while ensuring it receives the share of the economic spinoffs due to Quebecers.

— Ressources Québec, which has significant investment expertise, has already taken equity stakes in targeted companies.

As part of Budget 2014-2015, the government is affirming the strategic role of Ressources Québec by giving it strong mandates and clear directions that will enable it to contribute to Québec's economic growth. These measures will help:

— Quebecers to further benefit from our mining resources by increasing the government's stake in companies developing these resources;

— implement the strategy of direct government stakes in oil projects.

2.1 More benefit for Quebecers from our mining resources

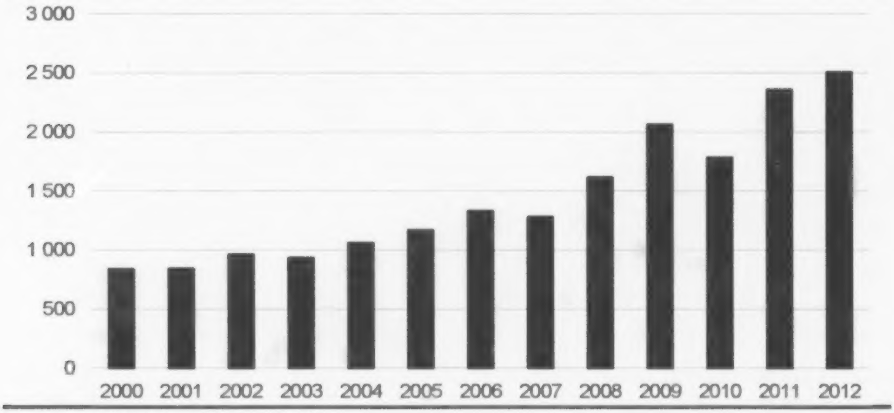
The mining sector is increasingly important to Québec's economy.

- Because of strong growth in the mining sector in recent years, its share of Québec's economy has more than doubled.
- It is an engine of economic activity in Québec, tripling its exports since 2000.

The mining sector is forecast to continue contributing to job creation over the coming years. Accordingly, its development offers substantial opportunity for economic growth in Québec.

CHART B.3

Québec's exports of mineral resources
(millions of dollars)



Source: Institut de la statistique du Québec.

However, it is essential that the spinoffs flowing from mining development in Québec benefit all Quebecers. That is why the government's actions in recent months have sought, on the one hand, to encourage the sector's growth by stimulating private investment and, on the other, to ensure that Quebecers receive a fair share of the profits.

In this regard, two major initiatives have been taken, namely implementation of the new mining tax regime, in force since January 1, 2014, and the adoption of the *Act to amend the Mining Act* on December 9, 2013.

As part of Budget 2014-2015, the government is taking additional steps to ensure that Quebecers benefit even more from the development of this sector, in particular:

- by fostering mining exploration through accelerated capitalization of SOQUEM;
- by raising its financial participation in mining companies developing resources in Québec;
- by continuing to improve the sector's oversight.

Québec's new mining tax regime

Québec's new mining tax regime is based on five principles:

- all mining corporations must pay royalties;
- Quebecers must benefit more extensively from mining operations;
- there must be more jobs in the processing sector;
- development of mineral resources must be more responsible;
- the regime must be more transparent.

The new mining tax regime strikes a balance between greater benefits from mining operations for Quebecers and incentives for businesses that foster the sector's development.

- It increases mining duties with the implementation of a minimum tax and a progressive mining tax on profit.
- It allows businesses to claim deductions fostering investment, such as the depreciation allowance.

Under the new mining tax regime, corporations pay the greater of the minimum mining tax and the mining tax on profit. The more profitable the operator, the higher the marginal tax rate that applies to mining profit. The new rates range from 16% to 28%, depending on the profit margin.

Parameters of the new mining tax regime
(per cent)

	Applicable rates
Minimum mining tax[1]	
– On the first $80 million of output value at the mine shaft head	1
– On the output value at the mine shaft head in excess of $80 million	4
Mining tax on profit by profit margin bracket[2]	
From 0% to 35%	16
From 35% to 50%	22
From 50% to 100%	28

(1) The minimum mining tax paid can be carried forward and applied against the mining tax on future profit.
(2) Mining profit of the operator divided by the total of the gross value of annual output for all the mines it operates.

2.1.1 $100 million for SOQUEM to foster mining exploration in Québec

Ressources Québec is a subsidiary of Investissement Québec. Its mission is to consolidate and energize the government's participation in projects by corporations in the mining and oil and gas sectors.

To that end, the Québec government and Ressources Québec undertook to finance one of its subsidiaries, SOQUEM, to carry out mineral resource exploration and development initiatives in Québec, in partnership with private companies.

To follow up on this announcement and maintain the level of mining exploration, the government and Ressources Québec will increase the capitalization of SOQUEM by $50 million each over three years, i.e. from 2014-2015 to 2016-2017.

❑ A new way to support mining exploration corporations

Until now, SOQUEM's strategy has been to foster partnerships by ceding interests in its projects in exchange for investments by junior exploration companies.

In view of the current context in which junior companies find it difficult to raise financing, SOQUEM is now following an inverse partnership strategy by selecting junior companies with the best mining projects and financing as much as all the exploration work.

Under its new strategy, SOQUEM considers a number of items before taking a stake in the mining projects of junior mining companies, namely:

- the technical quality of the project, to assess the its true potential;
- the expected economic viability, to ensure that projects with strong development potential are financed.

Financing available for mining exploration in Québec

To increase knowledge of Québec's sub-soil, the government and the Caisse de dépôt et placement du Québec, through venture capital corporations, make it possible for mining exploration corporations to obtain capital.

SIDEX

The Société d'investissement dans la diversification de l'exploration (SIDEX), a limited partnership, is a joint initiative of the Québec government and the Fonds de solidarité FTQ.

With an investment budget of $50 million divided between the Québec government and the Fonds de solidarité FTQ, SIDEX's mission is to invest in the equity of companies involved in mining exploration in Québec to diversify Québec's mineral inventory.

SIDEX's objective is to stimulate exploration investments in existing mining camps that demonstrate an attractive possibility for diversification and to open new territories to exploration and investment, where the potential for discoveries is high.

Sodémex

In 1996, the Caisse de dépôt et placement du Québec set up Sodémex, a Québec mining fund, whose mission is to contribute to the development of Québec's mining industry by taking stakes in junior exploration companies and mining producers active in Québec.

The fund, whose portfolio approaches $50 million, invests in Québec mining companies with a market cap of less than $500 million.

Sodémex Développement

Since 2013, mining corporations have had access to a new $250 million fund, Sodémex Développement, that will invest $5 million to $20 million in Québec corporations in the natural resources sector at every stage of their development, in particular the exploration stage.

The new fund will make capital available to these corporations allowing them to continue operating.

2.1.2 Increase the government's stake in businesses developing our resources

Equity stakes in a mining project enable the government to become a partner or shareholder of the company. Through these stakes, the government participates actively in the development of Québec's mineral potential and obtains a larger share of the profits from natural resources development.

In addition, the government's stake in mining development helps attract private investment by reducing risk, facilitating financing of the most promising projects and ensuring the sector's development according to best environmental and social practices.

Accordingly, along with SOQUEM's initiatives, the government intends to take equity stakes in the most promising projects, in particular concerning development projects.

There are many mining corporations in Québec. Accordingly, to reflect the actual situation in this sector, the government's stake in projects could result either:

- from negotiations on a project-by-project basis;
- or a system of equity options.

☐ Equity stakes negotiated on a project-by-project basis

The government's stake in a project makes it easier for the company to obtain private financing. Accordingly, by taking a stake in the most promising projects, the government:

- fosters private investment and job creation;
- obtains a greater share of the project's profits;
- fosters resource processing in Québec.

Accordingly, the Québec government will continue to negotiate, through Ressources Québec, equity stakes in the most promising mining projects.

To date, the Québec government is already a partner or has offered to be a partner in ten or so projects most of which include processing in Québec. They are located in various regions in Québec:

- the phosphate mine and plant project of Arianne Phosphate in Saguenay–Lac-Saint-Jean;
- the iron mine and deepwater port development project of Oceanic Iron Ore, in Nunavik;
- the rare earth mine development project of Quest Rare Minerals at Strange Lake in Nord-du-Québec and the construction of a plant at Bécancour;
- BlackRock Metals' project in Saguenay–Lac-Saint-Jean involving the development of an iron mine and the construction of processing facilities;
- Ciment McInnis's quarry and cement plant project at Port-Daniel-Gascons, in Gaspésie.

Overall, the projects the government is supporting could potentially generate investments of nearly $10 billion in the next few years and create more than 2 800 direct jobs in Québec's resource regions. In addition, these projects will have substantial economic spinoffs:

— they will lead to the creation of more than 2 400 indirect jobs for industry suppliers in every region of Québec;

— they will add $1.9 billion a year to economic activity in Québec.

Equity stakes for Québec's economy

Osisko

In 2009, the government worked with Osisko Mining Corp. to develop the huge potential of the deposit located south of the town of Malartic.

This open pit mine currently represents one of the largest inventories of gold reserves in production in Canada with proven and probable reserves in excess of 10 million ounces of gold.

Following an investment of $1 billion, production started in 2011 and it is expected that the mine will produce on average between 500 000 and 600 000 ounces of gold per year for 16 years.

Discovery of the Malartic mine has not only led to the creation of wealth, but has also helped generate nearly 700 direct quality jobs in this region.

The government, through Investissement Québec, still holds a large stake in this enterprise.

Stornoway

In 1996, the government, through SOQUEM, became involved in Stornoway's Renard project.

Stornoway, whose head office is located in Montréal, expects to invest more than $800 million to develop the deposit. Total indicated mineral resources amount to 27.1 million carats. The mine's initial productive life is estimated at 11 years.

Investissement Québec, through a subsidiary, remains a significant shareholder of Stornoway. Its close to 20-year involvement will help develop the deposit. The Caisse de dépôt et placement du Québec and SIDEX are also shareholders of Stornoway.

☐ A system of equity options

Given the large number of mining exploration companies, the government also intends to put a system of equity options in place. This system will enable the government to take equity stakes in a large number of projects without having to negotiate directly with each company.

Accordingly, the government is confirming its orientation to maintain generous tax assistance for exploration work in return for an equity option in favour of the government in the development phase of the deposit.

Over the coming months, the government, after consulting industry representatives, will work out the details of this equity option system. The adjustments to the refundable tax credit for resources and the application details of the equity options will be announced during the course of 2014.

2.1.3 Better oversight to ensure maximum benefit from our mineral resources in Québec

The *Act to amend the Mining Act* was adopted December 9, 2013. It fosters the sector's development and ensures more responsible development of mining resources.

As part of this initiative, the government in particular made changes to the mining claims regime to ensure that mining corporations fund the oversight of mining activity in Québec.

☐ Indexation of fees for mining claims

In Québec, to carry out exploration work, a claim must be obtained. It is granted for two years and is renewable provided the renewal fee is paid and exploration work is carried out.

Fees are charged for mining claims to ensure that mining corporations cover the costs of oversight of mining activity in Québec.

In this regard, it was announced in Budget 2012-2013 that claims registration and renewal fees would be reviewed to increase the revenue collected by the government at the time of the announcement by 25%.

In addition, beginning in 2015, these fees will be indexed at the same rate as other government fees.

Regulatory amendments will be made in this regard.

❑ Increased funding for the mining activity management component of the Natural Resources Fund

Along with the indexation of claims fees, Budget 2014-2015 stipulates that the maximum amount paid to the mining activity management component of the Natural Resources Fund will be indexed annually using the indexation formula stipulated in the *Financial Administration Act*.

The Fund's mining activity management component will be funded by, among others, claims renewal fees.

These amounts will fund additional activities relating to the mining industry regulatory regime.

This will result in the acquisition of more knowledge, improved supervision of regulation, as well as tighter monitoring and control of activities.

Legislative amendments will be made in this regard.

TABLE B.1

Registration and renewal fees(1) for a claim designated on a map(2)
(dollars)

Area of the claim	As at January 1, 2014
North of 52 degrees north latitude	
More than 50 hectares	127.00
From 45 to 50 hectares	113.00
From 25 to 45 hectares	101.00
Fewer than 25 hectares	28.00
South of 52 degrees north latitude	
More than 100 hectares	82.75
From 25 to 100 hectares	54.75
Fewer than 25 hectares	28.00

(1) When the renewal is made before the 60th day preceding its expiration date. If the renewal is made between the 60th day preceding its expiration date and its expiration date, the fee is doubled. The amounts demanded are five times higher where the number of claims designated during the same day exceeds 150 north of the 52nd parallel or 40 south of the 52nd parallel (theoretical situation).
(2) Specific fees apply to staked claims.
Source: Ministère des Ressources naturelles.

The *Mining Act*

The amendments made to the *Mining Act* will result in more responsible mining development that is more sensitive to communities and the environment, in addition to helping boost economic spinoffs.

Better environmental protection

Henceforth, to obtain a mining lease, the Minister of Natural Resources must approve the mine site redevelopment and restauration plan and an authorization certificate stipulated by the *Environment Quality Act* must be issued.

- In addition, an assessment by the Bureau d'audiences publiques sur l'environnement is now mandatory for mining projects of 2 000 tonnes or more, all rare earth projects and processing plant projects.

Respect for communities

The *Mining Act* contains numerous provisions to foster communication with citizens regarding mining projects.

- For instance, the promoter of a mining project must set up a monitoring committee to foster participation by the local community.

Greater transparency

The mine operator is now required to file an annual document showing the quantity and value of ore extracted as well as the mining duties paid. The claim holder is required to provide an account of work done.

Reconcile various uses of the territory

Regional county municipalities are responsible for defining territories that are incompatible with mining activity. In this regard, the government will adopt guidelines to assist them.

Increase economic spinoffs for Québec

An application for a mining lease or lease renewal must be accompanied by an economic opportunity study for processing in Québec.

- In addition, existing mining concessions will be required to undertake mining development work within five years, failing which the concession will be revoked.

2.2 Government equity stakes to develop the oil sector

The government is seeking to secure Québec's energy independence. Currently, international imports of crude oil account for almost half of Québec's trade deficit.

The geology of Québec's territory has characteristics that may foster the presence of oil and gas.

In recent years, preliminary work in Québec's subsoil has produced encouraging results, in particular in the following regions:

- Anticosti Island;
- Gaspésie;
- the Old Harry deposit.

To help achieve its objective of energy independence, the government's near-term objective is to prove Québec's oil potential.

The only way to confirm this potential, the type of oil and gas present and quantify the recoverable volume is through exploration work.

To foster the work necessary to confirm this potential, the government is announcing that it is putting in place the essential conditions to:

- participate financially in exploration work;
- attract the private investment necessary for exploration work;
- find the best partners whose expertise will make it possible to satisfy the most stringent requirements;
- develop expertise in Québec;
- obtain maximum benefit for Quebecers provided Québec's oil potential is confirmed.

An industry in its initial development phase

Québec's oil potential has sparked interest for many years.

- Numerous wells have already been drilled in Gaspésie, in particular to discover conventional oil. However, not enough wells have been drilled to quantify the size of existing resources.
- Preliminary work on Anticosti Island has confirmed that there is oil and gas potential, but not the type of oil or gas or amount that can be recovered.
- In the Gulf of St. Lawrence, no drilling has taken place as yet to confirm the existence of oil or gas resources. Seismic surveys have shown favourable indicators for the Old Harry formation.

Although work has been done, Québec is only in the initial phases of oil development. Much work remains to be done to qualify and quantify the potential.

- By drilling exploration wells, data can be collected on the subsoil that cannot be obtained otherwise.
- Using this data, the type of oil or gas present can be confirmed as well as other characteristics such as the recoverable volume, extent of the site, depth and pressure.

The four phases of the oil development process in Québec

1. Preliminary	Assessment of the territory's accessibility	Assess the region's potential
	Databases	Develop and analyze knowledge bases: – geological and geophysical data – seismic surveys
2. Exploration	Exploration	Identify promising zones Drill exploration wells
	Assessment	Confirm economic viability for development by drilling additional wells
3. Development	Development	Install the necessary equipment Drill development wells
	Production	Extract the oil and gas
4. Shutdown	Shutdown and site restoration	Shut down and restore the site once production is no longer economically viable

2.2.1 Two framework agreements to confirm the potential of Anticosti Island

The government wants to confirm the potential of Anticosti Island as a priority. Its geological features indicate that there is a good chance of finding oil there that can be developed.

On February 13, 2014 the government, via Ressources Québec, announced two agreements with exploration permit holders on Anticosti Island to participate in comprehensive exploration programs to determine the island's oil potential.

- The first agreement concerns a $100-million exploration program to develop the permits of Pétrolia and Corridor Resources.
- The second stipulates an exploration program of up to $90 million to confirm the potential of permits held by Junex.

If the potential of Anticosti Island is confirmed, the government could earn potential profits totaling $45 billion over 30 years.

❑ Agreement on the development of permits held by Pétrolia and Corridor Resources

Pétrolia and Corridor Resources together hold 38 permits on Anticosti Island, covering 1.5 million acres or 86% of the land under permit.

Work has already been done on land covered by the Pétrolia and Corridor Resources permits.

In 2011, Sproule Associates Limited, an oil sector consulting firm specializing in particular in oil and gas reserve audits, estimated a potential of 33 900 million barrels of oil equivalent on the land covered by the permits held by Pétrolia and Corridor Resources.

■ Government participation

Ressources Québec and Maurel & Prom (M&P), the second-largest French company in the oil sector and a partner with Pétrolia in other exploration projects, have jointly undertaken to finance an exploration program that may total $100 million to confirm the recoverable potential of the land covered by the Pétrolia and Corridor Resources permits.

- Ressources Québec's participation will amount to $56.67 million while M&P's share will be $43.33 million.

In addition, Ressources Québec will pay $13.3 million to Corridor Resources to obtain an additional stake.

Ressources Québec will ultimately obtain a dominant 35% equity stake in a project company combining the permits and investments required for the exploration program. The three other partners, Pétrolia, Corridor Resources and M&P, will each obtain a 21.7% stake.

Pétrolia will act as the operator. The government will ensure that the exploration work is carried out according to best practices.

The exploration work will be carried out in two phases:

- the first phase, totaling $55 million, will consist of 15 to 18 stratigraphic wells[1] and three exploration wells with fracturing;
- the second phase, amounting to $45 million, will be decided following the results of phase 1 and a favourable decision by the board of directors.[2]

Exploration work may begin in the summer of 2014 once all the necessary environmental authorizations are obtained.

❑ Agreement on the development of permits held by Junex

Junex holds 5 permits on Anticosti Island covering more than 233 000 acres or 13% of the land under permit.

Work has already been done on land covered by the Junex permits.

Netherland, Sewell & Associates, Inc., an oil sector consulting firm specializing in particular in oil reserve audits, estimates the oil initially in place on the land covered by the Junex permits at 12 228 million barrels.

The government, working with an operator to be determined, is undertaking to finance an exploration program for a maximum of $90 million in two phases. The first phase, totaling up to $50 million, will consist of four stratigraphic wells, three exploration wells and two exploration wells with fracturing.

The exploration program of the second phase will be decided following the results of phase 1 and a decision by the partners to continue exploration work. The partners' total commitment may reach a maximum of $40 million for the second phase.

The government and Junex have agreed to jointly select the partner to act as operator.

The government and the operator will obtain an 80% equity stake in the project company as soon as they commit to financing the exploration program.

- The split between Ressources Québec and the operator remains to be determined, but Ressources Québec could obtain more than 40%.

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[1] Means an oil exploration well using an oil drill designed in particular to compile detailed drill logs to assess the geological formation.

[2] This partnership will be managed by an active partner that is a share capital corporation. The active partner's board of directors will consist of a representative of each of the partners and an external representative appointed by them.

Once the final agreement is entered into, steps will be taken to obtain permits from the Ministère des Ressources naturelles and environmental authorizations before the work begins.

☐ An equity stake of almost 50% in the permits

Under the agreements announced on February 13, 2014, the government could hold, directly or indirectly, an equity stake of almost 50% in the permits on Anticosti Island.

TABLE B.2

Government's equity stake in exploration projects on Anticosti Island
(per cent)

Mechanisms	Agreement with Pétrolia, Corridor Resources and Maurel & Prom		Agreement with Junex[1]
Ressources Québec equity stake in the joint venture	28.3	35	40.0
Ressources Québec purchase of a portion of Corridor Resources' equity stake in the joint venture	6.7		—
Ressources Québec's existing equity stake (10% in Pétrolia and 11% in Junex)	2.2		2.2
Hydro-Québec's potential equity stake[2]	10.8		—
TOTAL	**48.0**		**42.2**

(1) Assuming the government finances half the exploration program in return for which Junex would cede 80% of its permits.

(2) This equity stake may reach 50% of Pétrolia's interest (21.7%) on Anticosti Island under a January 2008 agreement between Hydro-Québec and Pétrolia.

2.2.2 Strategy of direct government stakes in priority projects for Québec

The Québec government has an essential role in designing and enforcing an adequate regulatory regime but also in adopting a clear strategy for partnering with the private sector to develop Québec's oil potential.

Like other jurisdictions, the government wants to participate in the work confirming the potential and to receive a share of the profits if the potential is confirmed.

Accordingly, the government is announcing a strategy for taking a stake in priority oil exploration projects.

— To formulate the main parameters of its strategy and reach the two framework agreements, the government was helped by experts from the business world and the oil sector.

By owning a stake, the government will be able to ensure that the work satisfies the most stringent environmental and safety criteria and that all Quebecers benefit from oil and gas development.

As part of this strategy, the Québec government is adopting a clear approach and principles to guide its action and make it more transparent in order to play an active role while ensuring ample room for the private sector.

By participating right from the exploration phase, the government will be in a good position to make an informed decision on development should the potential be confirmed.

To do so, it wants to invest with the appropriate partners to jointly own and develop priority exploration projects in Québec.

Target regions are those with the most promising potential.

The preferred equity stake structure

The government's preferred equity stake structure involves directly entering into agreements with promoters that hold permits. In this structure, permit holders will become partners of the government in a joint venture that will hold the permits.

The government will obtain its stake in the joint venture in exchange for exploration work financing. The goal is to obtain a dominant stake directly in the exploration permits.

The government's major rights

The government's objective is to own a dominant stake giving it sufficient control to influence activities and ensure that work is done in accordance with industry best practices.

Accordingly, the government will demand certain rights, in particular:

- the right to monitor the operator that will do the work;
- members on various committees, concerning operations in particular, as well as the board of directors of the project company.

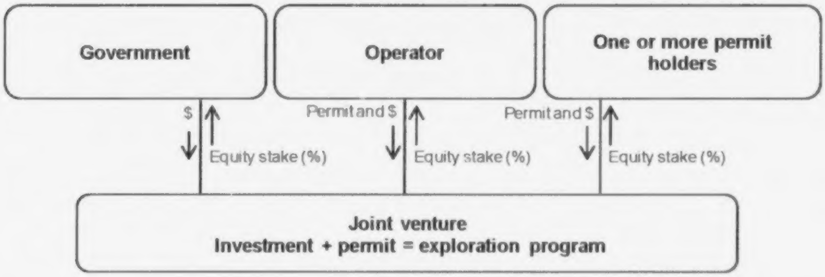
All the joint ventures will have a health, safety and environmental committee to deal with issues relating to these areas and to ensure that the operator complies with the joint venture's policies and guidelines on the matter.

Moreover, a community dialogue committee will also be formed as part of the joint ventures. Its responsibilities will include keeping local communities informed and responding to their concerns.

The government wants to develop expertise in Québec. Québec oil exploration companies are juniors. Accordingly, the government could decide to attract an operator with the required expertise or call on subcontractors to support operators carrying out exploration work.

CHART B.4

Preferred equity stake structure



❑ Ressources Québec's mandate

The government will take equity stakes via the Fonds du développement économique until the implementation of the Capital Mines Hydrocarbures fund, confirmed in Budget 2013-2014. This fund will have a total envelope of $1 billion. Ressources Québec, a subsidiary of Investissement Québec, may use its funds to top up project financing.

Ressources Québec is mandated to make recommendations to the government on equity stakes for oil projects with the most attractive potential. It will also negotiate the conditions of agreements with selected promoters on the basis of the government's orientations.

Accordingly, Ressources Québec's mandates will be to:

- participate in certain exploration projects through joint ventures with existing permit holders;
- solicit major companies with the expertise and financial capacity to invest and participate in oil and gas development in Québec.

Promoters interested in participating in exploration projects on a joint basis with the government will be analyzed rigorously regarding the potential of their property and their expertise.

■ Up to $250 million to develop the potential

Ressources Québec has an envelope of $250 million for the government's equity stakes in projects relating to non-renewable natural resources throughout Québec.

This envelope will provide Ressources Québec with the necessary means to take the equity stakes to assess Québec's oil potential. As a result of these equity stakes, all Quebecers will be able to benefit even more from oil development.

The financial impact of this envelope is already included in the government's financial framework.

TABLE B.3

Funds the government has allocated to oil exploration projects
(millions of dollars)

Envelope reserved for equity stakes	**250**
Less:	
– Agreement for the development of permits held by Pétrolia and Corridor Resources	70
– Agreement for the development of permits held by Junex[1]	45
Envelope available for other projects	**135**

[1] Estimate because the exploration program will be determined jointly by the operator, the government and Junex.

2.2.3 The government's objective: 50% of the profits from oil development

The government's objective is that all Quebecers benefit from oil development. To do so, it is seeking to obtain at least 50% of the profits from developing Québec's oil potential.

With the equity stakes strategy, the government will obtain a dominant share of the profits from the projects in which it participates.

The government has many ways to obtain the rent on oil and gas resources, including:

- development royalties averaging 18% of the wellhead value, according to the regime announced in Budget 2012-2013;[3]
- income tax, whose rate is 11.9% of profits;
- substantial equity stakes in oil corporations or oil projects.

With all the levers at its disposal, the government can be sure to obtain at least 50% of the profits from oil development.

- In the case of Anticosti Island, should the potential be confirmed, the government expects to earn 60% of the anticipated profits from development.

While the Québec government's objective of appropriating a large share of the oil rent appears ambitious, it should be noted that many other jurisdictions around the world have adopted this strategy.

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[3] In anticipation of future oil development, the government has initiated work to ensure that the royalty regime is based on actual development costs.

Examples of regimes

Like Québec, other jurisdictions where the government is involved in oil development apply various levers to obtain a substantial share of the oil rent.

Newfoundland and Labrador

Newfoundland and Labrador's regime seeks to obtain an equity stake of 10% through its government corporation (Nalcor Energy) in new oil development projects, in addition to imposing two types of royalties that depend on whether the projects are onshore or offshore.

- A basic royalty is applied depending on production. It ranges from 0% to 10%.
- A second royalty depends on the project's yield. Its marginal rate can approach 30%.

Norway

Norway owns 67% of Statoil. The level of the equity stake depends on the potential of each project.

Norway levies a basic tax on 28% on net operating profits. For offshore projects, a special tax of 50% is added.

Denmark

Denmark's government corporation, Nordsøfonden, takes a 20% equity stake in all new oil projects and applies a tax on oil and gas that can reach 70% of net income.

Brazil

Brazil requires that Pétrobras (more than 50% owned by the government) hold a minimum equity stake of 30% in all oil projects and collects a royalty ranging from 5% to 10% of production, depending on market price.

❑ Significant spinoffs for Québec

Development of Québec's oil potential would attract investment, develop adanced expertise, create jobs and wealth and help achieve Québec's objective of energy independence.

For example, if the potential on Anticosti Island is confirmed, the government could reap benefits totalling $45 billion over 30 years in the form of royalties, tax and profits relating to equity stakes. This represents roughly 60% of the overall profits relating to oil development on Anticosti Island.

TABLE B.4

Spinoffs for the government from developing Anticosti Island's oil potential(1)
(billions of dollars)

Sources	
Royalties	22.3
Corporate income tax	3.9
Equity stakes	18.7
TOTAL	**44.9**

(1) This estimate is based in particular on an oil price of $100 per barrel and application of the royalty regime announced in Budget 2012-2013.

2.2.4 Adequate regulatory oversight ensuring development that is sensitive to the environment and communities

Through its direct participation in exploration projects, the government intends to help foster the industry's development and ensure the work that is done satisfies the highest environmental and social acceptability requirements.

Exploration work will help to acquire knowledge that will be used to modernize the oversight of oil and gas exploration and development activities.

The government is currently working to implement a regulatory regime ensuring safe development of oil and gas resources in a way that is sensitive to the environment, local populations and sources of drinking water.

Accordingly, during the spring of 2014, the Minister of Natural Resources will table a bill on oil and gas as well as a bill on joint management of oil and gas in the Gulf of St. Lawrence.

This new legislative framework will implement rigorous oversight reflecting the adoption and application of the most demanding standards and best practices in oil and gas exploration and development. The new standards will draw on those recognized as world leaders. Accordingly, the government will ensure:

— that Quebecers obtain their fair share from oil development;

— that oil exploration and development is carried out in a way that is sensitive to the population. Oil companies will have to demonstrate transparency and reach an understanding with local communities;

— that environmental protection and the safety of individuals and property are ensured.

Expert panel

The Ministère des Ressources naturelles has set up an expert panel to help the government formulate the legislative and regulatory framework reflecting best practices in onshore as well as offshore environments.

These experts have been drawn from the INRS Centre Eau Terre Environnement and the Institut des sciences de la mer in Rimouski. They will participate in formulating the oil and gas legislation by:

- noting best oil and gas exploration and development practices in certain specific aspects;
- presenting practical recommendations to assist the government in formulating a regulatory framework reflecting best practices.

Similarly, the INRS will be mandated to contribute to work on Anticosti Island as a neutral specialist ensuring that all the data and parameters needed for the issues are available. The INRS will also ensure that work is carried out in strict compliance with industry practices regarding unconventional methods of extracting shale oil.

Until the regulatory framework is put in place, the Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs (MDDEFP) has prepared guidelines for oil and gas drilling projects that take into account all of the regulatory and administrative provisions for the oversight, monitoring and environmental control of exploration and development projects.

In addition, all the work will be closely monitored by experts of the Ministère des Ressources naturelles (MRN) and the MDDEFP. There will be three levels of monitoring:

- The MDDEFP will study authorization certificate applications and will refer to the guidelines for oil and gas drilling projects developed over the past year as well as the regulatory provisions adopted in June 2011 for the oversight of oil and gas exploration projects.
- The MDDEFP will closely monitor oil exploration activities in particular on Anticosti Island and will ensure that the work complies with the authorizations that are issued.
  - The MDDEFP has a systematic inspection program targeting oil and gas wells. This program includes specific measures to detect gas migration. Accordingly, all wells are visited at least three times a year.
- MDDEFP and MRN experts will carry out scientific oversight of exploration work to document practices and their effects and, if need be, develop administrative and regulatory measures to better supervise this sector.

Natural Resources Fund, oil and gas management component

On November 12, 2012, the Minister of Finance and the Economy announced the creation of the oil and gas management component of the Natural Resources Fund (NRF).

This fund will finance all the activities relating to oil and gas including monitoring and control, research and development in the oil and gas sector. It will enable the government to develop Québec's oil and gas potential in keeping with best practices regarding environmental protection and social acceptability.

Accordingly, the fund's oil and gas component will derive most of its revenue from:

- annual rent and fees for permits and authorizations;
- fines collected.

Revenue from annual fees for exploration permits will rise from $1 million in 2012-2013 to nearly $5 million in 2014-2015.

This revenue will fund the work needed to develop oil and gas in Québec. It will also be used to fund adding value to Québec's territory through the acquisition and dissemination of geoscientific knowledge.

In addition, the government is confirming its commitment to mandate the Bureau d'audiences publiques sur l'environnement (BAPE) to carry out public consultations on oil and gas development on Anticosti Island, if commercially viable potential is discovered.

- All the players concerned will be consulted and will have an opportunity to voice their concerns.

In light of the BAPE's report, the government will be able to determine the conditions that need to be applied to develop a safe oil industry that is sensitive to the specific features of Anticosti Island.

Accordingly, should Québec give the green light to oil and gas development, the existing regulations will make it possible to study every aspect of such development, according to the specific features of each region. These regulations will protect the health and safety of local inhabitants as well as the environment.

This is how the government intends to achieve the highest industry environmental and social acceptability standards.

☐ $5 million over 3 years for adequate regulatory oversight

To implement adequate regulatory oversight to protect the environment and ensure the safety of local inhabitants in relation to the recommendations of strategic environmental assessments, the government is announcing that an additional $5 million will be allocated over 3 years in this regard, i.e.:

- $1 million in 2014-2015 and $1.5 million for the following two years to improve oversight of oil and gas exploration and development activities to ensure that the work is done according to industry best practices;
  - as a result of these efforts, the government will have the strategic scientific information required to apply effective conservation measures and appropriate environmental management. In addition, they will make it possible to define and apply stringent environmental standards with which the industry will have to comply, carry out inspections and audits of the industry's activities and plan rigorous implementation environmental emergency operations;
- $0.5 million in 2015-2016 and 2016-2017 for a program to acquire knowledge on groundwater. This knowledge is essential in the context of popular concerns regarding the protection of this source of drinking water, in particular with respect to oil and gas exploration and development. The information resulting from projects to acquire knowledge regarding groundwater will form the basis supporting the application of the future regulation respecting water withdrawal and its protection.

Recommendations from strategic environmental assessments

Three strategic environmental assessments (SEA) have been set up in Québec to guide the government's action on any future oil and gas development in Québec.

The first assessment (SEA1), carried out by Aecom in 2010, led to a moratorium on oil and gas exploration and development in the St. Lawrence estuary.

- The area is unsuitable for oil and gas exploration and development activities mainly because of its fragility and the variety of existing economic activities.

The second, carried out by Genivar in September 2013, covered the Anticosti, Madeleine and Chaleur Bay basins (SEA2).

- The assessment offers a large number of observations and recommendations to which the government has paid particular attention.
- Among others, shortcomings in the existing regulatory framework, the need for new orientations regarding energy development and gaps in the knowledge of environmental reprecussions are issues that require action in the near future.

Accordingly, a number of concrete actions have been taken, in particular:

- work has begun on implementing an energy strategy;
- new legislation will be introduced to oversee oil and gas development in keeping with sustainable development principles;
- the royalty regime will be changed to maximize benefits from future development.

In addition, the third assessment (SEA3) carried out by the strategic environmental assessment committee deals with shale gas. In light of these observations, other measures may be taken to optimize oversight of the oil and gas sector.

3. DEVELOP SUCCESSFUL BUSINESSES

Québec boasts many strengths that work for the prosperity of its businesses including abundant natural resources and a population that is creative and educated. However, to create jobs and secure sustainable prosperity, entrepreneurs need access to financing and high-level support for the development of their businesess.

By supporting the critical phases of their development, private venture capital funds, tax-advantaged funds, development funds and public financing are essential to the success of businesses. Accordingly, it is crucial that Québec ensure that they remain viable and continue to contribute to a business climate that is stimulating, fair and honest.

In addition, the support provided for small Québec businesses with the best growth potential must be matched to their specific needs to ensure that their growth is sustainable and that they reach the medium-size business stage.

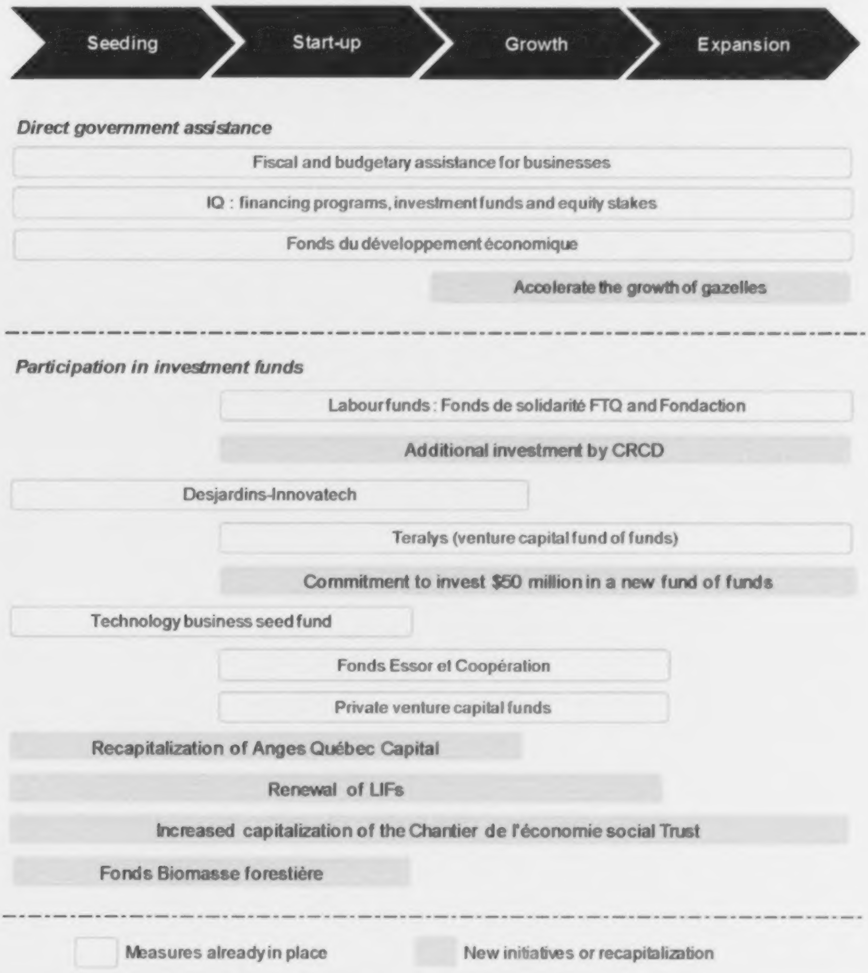
Continuing existing efforts to develop a conducive environment for investment and innovation, Budget 2014-2015 will:

- foster the growth of our most promising businesses, in particular through:
  - special support for gazelles;
  - a commitment to invest $50 million in a venture capital fund of funds in Québec;
  - an additional $150 million in funds to be raised by Capital régional et coopératif Desjardins to invest more in businesses;
  - more capital for the Chantier de l'économie sociale Trust.
- facilitate the seeding and start-up of businesses in Québec, in particular by:
  - investing $25 million in the Anges Québec Capital fund;
  - renewing the local investment funds;
  - investing $10 million to develop the residual forest biomass sector.

The government's initiatives as part of Budget 2014-2015 complete those already in place and offer complete and balanced support to meet the needs of Québec businesses from the seeding to the expansion stage.

CHART B.5

Illustration of business financing and capitalization measures depending on development stage

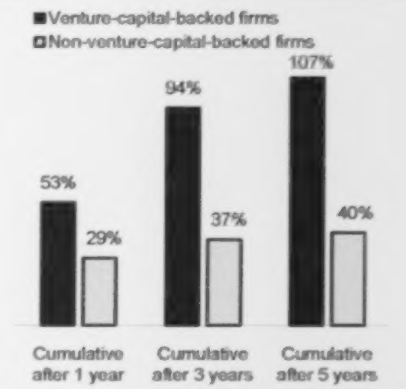

Seeding
Start-up
Growth
Expansion
Direct government assistance
Fiscal and budgetary assistance for businesses
IQ : financing programs, investment funds and equity stakes
Fonds du développement économique
Accelerate the growth of gazelles
Participation in investment funds
Labour funds : Fonds de solidarité FTQ and Fondaction
Additional investment by CRCD
Desjardins-Innovatech
Teralys (venture capital fund of funds)
Commitment to invest $50 million in a new fund of funds
Technology business seed fund
Fonds Essor et Coopération
Private venture capital funds
Recapitalization of Anges Québec Capital
Renewal of LIFs
Increased capitalization of the Chantier de l'économie social Trust
Fonds Biomasse forestière
Measures already in place
New initiatives or recapitalization

Investments with a major effect on businesses

Venture capitalists, through active management and by sharing experience, help business start-ups to accelerate development of their activities, commercialize their products and services and grow faster.

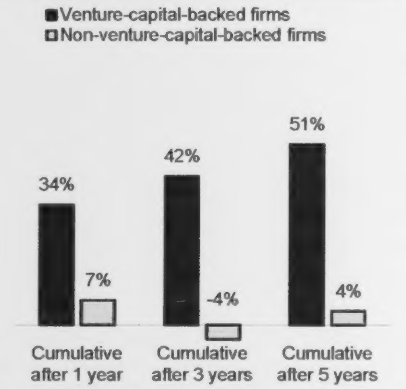
A recent study published by Canada's Venture Capital Association shows that venture-capital-backed firms have average returns that substantially exceed those of businesses without such financing, as shown in particular by stronger growth in revenue, sales, number of employees and assets.

Average revenue growth
(per cent)



Source: The Performance of Canadian Firms That Received Venture Capital Financing, Canada's Venture Captial Association, June 2013.

Average employment growth
(per cent)



Source: The Performance of Canadian Firms That Received Venture Capital Financing, Canada's Venture Captial Association, June 2013.

3.1 Actions to foster the growth of our most promising businesses

3.1.1 Accelerate the growth of gazelles

Québec's industrial fabric, consisting chiefly of small businesses, has not achieved its full potential in terms of productivity, innovation, growth and exports. This affects Québec's overall economy, but also its regional economies.

Accordingly, Québec has to increase the number of businesses that, once they have completed the early stages of their life, experience strong growth and are likely to become standard-bearers of Québec's economy.

Accordingly, under Québec's Industrial Policy, regional business intervention plans will be implemented to contribute to regional vitality and accelerate business growth.

☐ Regional business intervention plans

The Québec government wants to increase the number of medium-size businesses by closely supporting small businesses that are already growing sales at a sustained rate in order to bring them to the medium-size business stage. To do so, winning conditions will be put in place. They represent the service offering included in regional business intervention plans.

These plans will include regional economic vitality profiles for every region of Québec and selection and support over three years of high-growth businesses, the gazelles, and promising businesses.

The objective is average annual sales growth of 20% over five years for the gazelles. Some of them could reach sales of $200 million by 2017.

Regional economic vitality profiles

A regional economic vitality profile is a powerful regional economic development tool for defining local economic development actions and initiatives over the coming years. It consists of a snapshot of the economy. It results from a pooling of resources and deliberation by local development centres (CLDs), Investissement Québec, regional divisions of the Ministère des Finances et de l'Économie as well as consultation with other regional economic players.

❑ Selecting high-growth businesses

Three hundred high-growth businesses, the gazelles, will be selected over three years, i.e. 100 per year, to accelerate their development.

Businesses wishing to participate in the program can complete an online pre-qualification questionnaire. A promising business will learn quickly if it qualifies.

On the basis of objective qualification criteria, the 100 businesses with the highest scores will be called gazelles. The remaining 200 will be called promising businesses, future gazelles as it were.

For their official application, businesses will have to supply certain information to assess their financial performance, international outreach, productivity and their management team.

— The call for candidates will be open from February 24 to March 28, 2014 and the businesses selected will be announced later in the spring.

A national selection committee will be responsible for identifying the gazelles, ensuring the transparency of the process, the proportion of businesses from the manufacturing sector and that from the high value-added tertiary sector.

The Minister for Industrial Policy and the Banque de développement économique du Québec will announce the details of this program shortly.

Tomorrow's standard-bearers: gazelles and promising businesses

The gazelles

They are established businesses that are already posting outstanding sales growth. They export, create wealth for Québec and will experience rapid growth over the next three years. They are typically at least three years old, have sales of at least $2.5 million, fewer than 250 employees and are Québec-owned. They have the necessary financial capacity and determination to commit to an intensive growth strategy. Most of them are in the manufacturing sector as well as the high value-added tertiary sector.

Promising businesses

These are Québec businesses with characteristics similar to the gazelles. They represent the pool of Québec's future gazelles and must fine-tune certain items to become fully-fledged gazelles. A support cell will be formed to help them to do so. In addition, the business will receive strategic consulting support. The promising business will have an opportunity to apply once again at the next call for gazelle candidates.

☐ Personalized support and an integrated service offering

The selected businesses will receive individualized support. The best growth solutions for each gazelle will be studied. The analysis will assess the combination of growth strategies relating to exports, productivity improvement, product diversification, investment as well as growth through merger or acquisition.

A multidisciplinary support cell will be set up in each region. In addition to professionals from Investissement Québec and the regional divisions of the Ministère des Finances et de l'Économie, these cells will consist of experts from local development centres, essential partners in Québec's economic development.

3.1.2 A $50-million commitment for a new venture capital fund of funds in Québec

To help high-growth businesses to grow and develop, it is essential that the vitality of Québec's venture capital financing ecosystem be maintained. Accordingly, the Québec government will take steps to create a new venture capital fund of funds in Québec.

The Québec government wants to ensure that the most successful funds, whose investment period is nearing its end, are quickly recapitalized to avoid leaving a vacuum in the financing chain and thus allow the most successful businesses to continue growing.

☐ A leverage effect to attract private investors

To attract other investors, in particular from the private sector, the Québec government is confirming that it intends to invest $50 million in this new fund of funds in Québec.

The Québec government will identify, in particular by working with the Caisse de dépôt et placement du Québec, the Fonds de solidarité FTQ and other private partners, additional amounts to be committed to this new fund of funds.

The objective will be to achieve a leverage effect of $2 of private investment for each dollar of investment by the Québec government.

Moreover, as part of the Venture Capital Action Plan of Canada (VCAP) announced by the federal government, an envelope of $350 million has been set aside to finance large funds of funds in Canada.

In this regard, the federal government recently announced that a fund of funds is to be established in Ontario, managed by Northleaf Capital Partners. The federal investment as part of the fund's first closing was $36 million.

The Québec government will continue negotiating with the federal government to assess the possibility of including the new Québec fund of funds within the VCAP.

❑ An initiative backed by Québec's success

Québec is viewed as a venture capital leader in Canada as a result of its trail-blazing public policies fostering the involvement of private investors and the adoption of business models tailored for each activity sector.

One of these trail-blazing initiatives is the Teralys Capital fund of funds.

Formed in 2009 at the initiative of the Québec government, the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ, Teralys Capital is currently the largest fund of funds in Canada.

Teralys Capital is a fund of funds focusing on technologies. It finances private venture capital funds that invest in information technology, life sciences and clean technology.

A dynamic venture capital industry

Québec's venture capital industry was very active in 2013. In the first three quarters of the year, $513.6 million was invested in 110 businesses.

After the first three quarters of 2013, investments were diversified as follows:

- the traditional sector received 32% of investments, i.e. $164.8 million in 62 businesses;
- the clean technology sector received 39% of investments, i.e. $199.3 million in 8 businesses;
- the information and communications technology sector garnered 18% of investments, with $90.8 million in 36 businesses;
- the life sciences sector obtained 11% of investments, i.e. $58.5 million in 15 businesses.

Québec remains in first place in Canada after nine months of 2013, ahead of British Columbia and Ontario which received $368 million and $357 million respectively.

Source: Thomson One, February 14, 2014.

3.1.3 Additional investments by Capital régional et coopératif Desjardins

Since 2001, Capital régional et coopératif Desjardins (CRCD) has played a significant role in financing Québec SMEs, especially those located in the resource regions, and cooperatives.

In recent years, CRCD has participated in major initiatives to foster the growth of SMEs and cooperatives and the new generation of entrepreneurs, in particular by participating in private funds such as the Capital Croissance PME II fund, the Fonds Essor et Coopération and the Fonds Relève Québec.

To enable CRCD to maintain its financial activities in Québec's regions, with an extra effort for businesses located in areas facing economic difficulties, the government is announcing that:

- CRCD may issue $150 million in shares for 2014;
- CRCD will invest at least $10 million over four years in areas facing economic difficulties;
- the rate of the tax credit for the purchase of CRCD shares will be reduced from 50% to 45%.

These initiatives will ultimately the save the government $6.5 million, while maintaining the level of financial activity among Québec SMEs.

TABLE B.5

Main features of CRCD – 2014

Capitalization	– Maximum share issuance of $150 million
Parameters of the fiscal measure	– Non-refundable tax credit of 45% applicable to the acquisition cost of CRCD shares – Maximum purchase of $5 000 per shareholder – Minimum holding period of shares of seven years – After redeeming shares, subsequent purchase of shares is not possible
Investment requirements	– Minimum of 60% of capital in eligible businesses – Of that portion, 35% (21% of its net assets) in the resource regions or in cooperatives – At least $10 million over four years in areas facing economic difficulties
Eligible corporations	– Québec corporations with assets of less than $100 million or net shareholders' equity of less than $50 million – Cooperatives, including the businesses they control

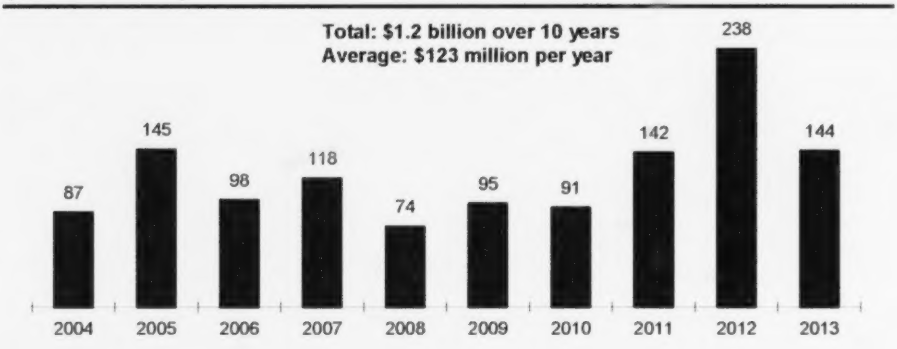
☐ Share issue of $150 million for 2014

Between 2004 and 2013, CRCD made investments averaging $123 million per year for a total of more than $1.2 billion.

Given the 35% regional component of its investment requirement, CRCD invested a substantial share of this amount in SMEs located in the resource regions and in cooperatives.

CHART B.6

Investments with an impact on Québec's economy, 2004 to 2013
(millions of dollars)



Source: CRCD financial reports.

CRCD's annual share issuance is capped at $150 million until it reaches capitalization of $1.25 billion. However, it reached this level during 2013.

To enable CRCD to continue investing in Québec SMEs, especially those in the resource regions and in areas facing economic difficulties, the government is announcing that it is allowing CRCD to issue $150 million in shares in 2014.

☐ Support of $10 million over four years in areas facing economic difficulties

Because of their distance from large urban centres, the resource regions face specific competitive challenges. In particular, the operating costs of businesses in these regions are higher, especially regarding transportation costs and maintaining inventories they need for their activities. Consequently, economic development is more difficult for some RCMs in these regions.

In addition, other territories that are not distant from large urban centres are also experiencing major economic difficulties. They face special problems, whether because of insufficient industrial diversification or lack of entrepreneurs.

For these territories, obtaining the financing needed to carry out investment projects is a major challenge, especially for small businesses.

To make more capital available to finance the projects of existing and new businesses in territories dealing with economic difficulties, the government is directing CRCD to invest at least $10 million in these territories over the next four years. There will be no limitation placed on CRCD regarding the number of projects supported and the total amount invested.

- To recognize the significance of these investments, the first $500 000 invested in a given project will count for double its value for the purposes of the investment requirement and the regional component.
- In view of the investment objective of at least $10 million, the $500 000 limit will encourage CRCD to support more projects.

CRCD will file an annual accounting with the government regarding the objective to invest $10 million over four years in businesses in territories facing economic difficulties.

TABLE B.6

Main conditions for recognizing CRCD investments in territories facing economic difficulties

Investment requirement	– The first $500 000 invested in eligible corporations will count for double its value for the purposes of the investment requirement and the regional component – Commitments in excess of $500 000 will be counted at their face value
Eligible investments	– Investments that include no security bond or hypothec and are carried out in territories facing economic difficulties
Application period	– Investments committed after the day of Budget 2014-2015 and before January 1, 2018 – These investments will continue to be recognized under the regional component of the investment requirement until the expiration of each initiative

Territories covered

The 40 regional county municipalities (RCM) or equivalent territories of Québec with the lowest economic development indices in recent years will be targeted for these initiatives.

— Accordingly, for four years, 16 RCMs of the central regions, in particular including the Etchemins RCM, will be added to the territories recognized for the purposes of the regional component of CRCD's investment requirement.

TABLE B.7

RCM or equivalent territories targeted by the $10-million investment objective

Resource regions (24)			
Abitibi-Ouest	La Côte-de-Gaspé	La Tuque	Maria-Chapdelaine
Avignon	La Haute-Côte-Nord	Le Domaine-du-Roy	Maskinongé
Bonaventure	La Haute-Gaspésie	Le Golfe-du-Saint-Laurent	Mékinac
Eeyou Istchee	La Matanie	Le Rocher-Percé	Shawinigan
Kamouraska	La Matapédia	Les Basques	Témiscamingue
Kativik	La Mitis	Les Îles-de-la-Madeleine	Témiscouata
Central regions (16)			
Acton	L'Islet	Le Haut-Saint-Laurent	Matawinie
Antoine-Labelle	La Vallée-de-la-Gatineau	Les Appalaches	Montmagny
Argenteuil	Le Granit	Les Etchemins	Papineau
Coaticook	Le Haut-Saint-François	Les Sources	Pontiac

Economic development index of RCMs or equivalent territories

The Ministère des Finances et de l'Économie du Québec compiles an economic development index used to mesure disparities in development of 104 RCMs or equivalent territories. The index consists of five socio-economic indicators that reflect the demographic profile, labour market and household income, each of which counts for one third of the index.

Socio-economic indicators that make up the economic development index of RCMs or or equivalent territories

Themes	Indicators
Demographic profile	– Annual change in population – Proportion of the population of working age (age 15 or over)
Labour market	– Rate of workers (among those age 25 to 64)
Income	– Earned income per inhabitant – Proportion of household personal income from government transfers

❑ Rate of the tax credit for the purchase of CRCD shares reduced from 50% to 45%

The tax credit allowed for the acquisition of CRCD shares is intended to offset part of the risk shareholders assume as a result of the fund's mission and the nature of its investments.

Over the years, the CRCD has grown in size, the fund has raised its profile and its historical returns have improved. Accordingly, since these new realities reduce the fund's risk level, Budget 2014-2015 stipulates that the rate of the tax credit allowed for the purchase of CRCD shares will be reduced from 50% to 45% as of the 2014 issue.

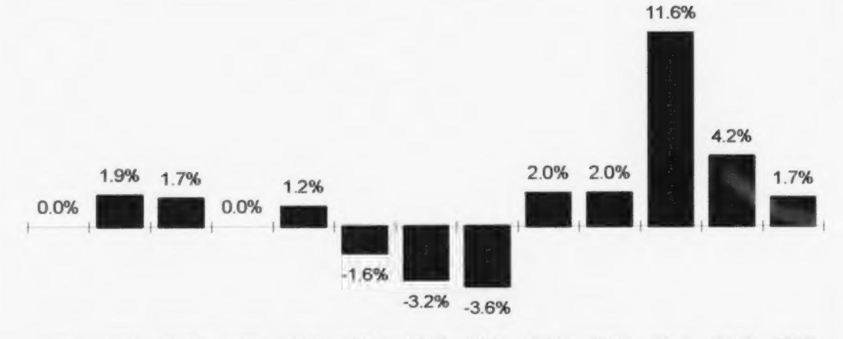
Despite this reduction, the fund's recent returns mean CRCD shares will remain just as attractive. Accordingly, CRCD will be able to continue its investment activities and fulfil its special mission.

CRCD's return

CRCD's net assets are currently close to $1.5 billion and it has $1.25 billion in capital.

The fund's return has improved substantially over the years. Since 2009, the fund's returns have been positive.

Annual return of the CRCD, 2001 to 2013(1)



(1) Excluding returns generated by tax benefits.
Source: CRCD financial reports.

3.1.4 More capital for the Chantier de l'économie sociale Trust

The chief mission of the Chantier de l'économie sociale Trust is to foster the expansion and development of collective enterprises by improving access to financing for social economy businesses. At the current pace, the Trust will be unable to maintain its level of investment after 2015.

To enable the Trust to invest more, the government is announcing an interest moratorium on its contribution to the Trust for an additional five years.

The government's additional contribution represents an investment of $500 000 for 2014-2015 and each of the next four years. It will be funded from the Fonds de développement économique.

This enhancement will enable the Trust to continue investing. In addition, it will provide leverage to obtain additional private-sector contributions of up to $8 million.

The Chantier de l'économie sociale Trust

Since its beginning, the Chantier de l'économie sociale Trust has proven to be a structuring initiative supporting the development of social economy businesses operating in various activity sectors and in most regions of Québec.

In 2006, the Québec government's repayable contribution of $10 million and the five-year interest moratorium on that contribution enabled the fund to be set up with an initial capitalization of $49 million available for investment purposes.

The Trust has funded a variety of projects in terms of both the types of clients and activities supported as well as the size of the investments. To date, the Trust has invested $34 million in 117 businesses.

Examples of projects funded by the Chantier de l'économie sociale Trust

Projects	Activities	Trust investments	Total cost of projects	Number of jobs sustained
Centre d'action, de développement et recherche en employabilité	Job integration of individuals suffering from severe mental illness and services to seniors	$485 000	$1 700 000	93
Coopérative funéraire de la Capitale	Offer quality funeral services at the lowest possible price	$450 000	$1 900 000	18
Fondation Travail sans frontière	Support individuals in their job search efforts	$777 467	$3 900 000	19

Source: Chantier de l'économie sociale Trust.

3.1.5 Improved governance of tax-advantaged funds

For 30 years, tax-advantaged funds have contributed to Québec's economic growth by creating and sustaining jobs through investments in Québec businesses.

The Fonds de solidarité FTQ, Fondaction and Capital régional et coopératif Desjardins receive government support through a tax credit for the purchase of shares of these funds.

An important contribution to Québec's economy

The mission of tax-advantaged funds is to invest in Québec businesses:

- in all economic sectors of Québec;
- in every region of Québec;
- at every stage of their development.

Their financing completes that of traditional financial institutions.

The Fonds de solidarité FTQ, formed in 1983, invests in 25 activity sectors ranging from aerospace to bio-food and including clean technologies.

The CSN's Fondaction, formed in 1995, is more specialized in the social economy, sustainable development sectors as well as businesses that are engaged in a participative management process.

The mission of Capital régional et coopératif Desjardins, which has been operating since 2001, is to invest in businesses located in the resource regions and in cooperatives.

The combined net assets of these three funds exceeds $12 billion.

- Over the past 10 years, they have invested more than $825 million in development capital per year on average, thus contributing to the creation and continuation of thousands of jobs in Québec.

In addition, tax-advantaged funds are a savings vehicle for more than 800 000 Quebecers.

- These include more than 720 000 individuals who purchase shares in labour funds for their retirement plan.

Tax-advantaged funds have also helped Québec to make its mark in venture capital investments. In recent years, Québec has been able to call on this expertise to develop a diversified venture capital ecosystem supported by private and foreign financing.

Many of the Québec government's initiatives were adequately financed thanks to partnerships with tax-advantaged funds including:

- the FIER Partners and Teralys Capital funds of funds;
- the Real Ventures, Cycle-C3E and AmorChem seed funds.

Quebecers, whether savers, fund partners, taxpayers or businesses that receive financing, are entitled to expect that the rules of governance correspond to best practices in this field.

Regarding the governance of the three tax-advantaged funds, the government will propose legislative changes to tighten their rules of governance.

These rules will ensure governance that is transparent, honest and responsible. It is important that Quebecers continue to have confidence in investing in tax-advantaged funds, for the greater benefit of Québec businesses.

Changes announced by the Fonds de solidarité FTQ

On February 6, 2014 the Fonds de solidarité FTQ announced changes recommended by its special committee and ratified by its board of directors. The main recommendations are:

- the chairman of the board of directors will no longer be president of the union, to avoid any conflict of interest or apparent conflict;
- shareholders will elect the majority of members of the board of directors;
- three new committees will be formed, one on governance and ethics, a second on human resources and a third on risk management;
- legislate the rules adopted in 2009 requiring any investment to be approved by an investment committee formed by a majority of persons independent of the Fonds de solidarité FTQ and of the FTQ and that independent members have a veto;
- reduce the power of the board of directors over investment decisions because only investments in excess of $25 million will be submitted to it, rather than $5 million as is currently the case.

The government will take these recommendations into account in preparing its bill.

☐ Ensure the long-term viability of tax-advantaged funds in Québec

The efforts made in Québec in recent years to increase and diversify sources of financing available for businesses have produced results.

Québec stands out in terms of business financing, in particular with respect to the amount of venture capital investment. Tax-advantaged funds make a significant contribution to the success of Québec's business financing model.

However, the federal government's announcement in the 2013 budget to gradually eliminate the tax credit for labour funds will have a considerable impact on Québec's business financing model.

The Québec government does not intend to follow the federal government's strategy and reiterates its support for labour funds.

In view of their significance in Québec's economic development and their role in retirement saving, the government will take an overall position on its initiatives in relation to tax-advantaged funds to determine appropriate actions to ensure their long-term viability in Québec.

3.2 Additional assistance to foster the seeding and start-up of businesses

3.2.1 $25 million to recapitalize Anges Québec Capital

Few investors become involved in financing businesses at the seeding or start-up stages in Québec because this type of investment demands extensive sectoral knowledge and sustained support of the businesses that receive the financing.

Angel investors are key players in the seeding and start-up of businesses. They detect promising projects and contribute to their success by investing capital in them, but also by mentoring new entrepreneurs.

In this context, the Québec government is confirming, in Budget 2014-2015, its intention to support the involvement of angel investors by recapitalizing the Anges Québec Capital fund.

Anges Québec

Anges Québec is a network of angel investors whose chief mission is to pool a business network to target the best entrepreneurs and business opportunities and provide support to members who finance them.

The members of Anges Québec are experienced entrepreneurs who contribute to the launch and growth of businesses in a variety of sectors. Each member independently makes decisions on his investments and becomes involved in business projects that meet his investment criteria. It can play a financial or participative role in activities, such as mentoring, participation on boards of directors, promotion of projects with its business network or formulation of business strategies.

Angel investors that are members of the network must be qualified investors as that expression is understood by the Autorité des marchés financiers.

❑ A hugely successful co-investment fund

Since May 2012, the Anges Québec network manages the Anges Québec Capital co-investment fund, in which the Québec government has invested $20 million. The fund can undertake to invest a maximum of $2 for each $1 invested by angel investors in business projects.

Since it was formed, the Anges Québec Capital fund has been hugely successful as it has committed to invest all of its capital in 14 projects of Québec busineses, five of which have already received a second round of financing. Up to now, the total financial commitments of angel investors exceed those of the co-investment fund, showing the substantial involvement of these investors in Québec's financing ecosystem.

Significant support for business start-ups

In this context, the government's objective is to quickly recapitalize the fund to enable longer-term financing of businesses at the seeding and start-up stages in every region of Québec and in various activity sectors.

In Budget 2014-2015, the Québec government is confirming its commitment to recapitalize, working with Investissement Québec, the Anges Québec Capital fund with an additional $25 million. Closing to that effect will occur soon.

As part of a subsequent closing, the objective will be to include additional partners to increase the fund's size to $60 million.

These investors will invest a minimum of $30 million in business projects, allowing Anges Québec Capital to finance nearly 50 new business projects over the next five years. Accordingly, total investments in business will reach a minimum of $90 million.

The amounts necessary for the investment of $25 million will be drawn from an advance from the Fonds du développement économique.

TABLE B.8

Recapitalization of the Anges Québec Capital fund – Investments in businesses
(millions of dollars)

	Commitment
Québec government and Investissement Québec	25
Other partners	35
Subtotal	**60**
Angel investors (minimum commitment)	30
TOTAL	**90**

3.2.2 Renewal of local investment funds

Local investment funds (LIFs) seek to stimulate local entrepreneurship by fostering access to capital for starting up or expanding traditional or social businesses. They are the main tool available to the 120 local development centres (CLDs) to support businesses in their territory.

Under the existing terms and conditions, LIFs will expire on December 31, 2014 and the CLDs will no longer be able to provide financing as of January 1, 2015.

In view of the importance of LIFs in supporting local entrepreneurship, Budget 2014-2015:

— defers the repayment of LIFs for five years, making funds available to maintain their activities in the regions;

— streamlines the terms and conditions of LIFs to support future entrepreneurs seeking to acquire businesses in all regions of Québec.

With these changes and this deferral, CLDs will be able to make additional annual investments of $25 million from 2015-2016 to 2019-2020 from the existing capitalization.

Local investment funds

For the past 15 years, the local investment funds (LIFs) available to the 120 local development centres (CLDs) have provided financial assistance for starting up and expanding businesses in their territory. In addition, LIFs can support entrepreneurial succession.

Since they were set up in 1998, there have been two recapitalizations of LIFs bringing their total capitalization to $172 million.

Growth in the LIF envelope
(millions of dollars)

	Stipulated	Paid
Initial funding (1998)	99	95.1
Budget 2001-2002	31	30.9
Budget 2006-2007	45	46.0
TOTAL	**175**	**172.0**

Since 1998, the LIFs have helped create and maintain more than 111 000 jobs and nearly 10 000 businesses. In addition, they have helped generate more than $3.6 billion in investment.

LIF operations – 1998 to 2012

	Total(1)
Number of jobs created and maintained	111 529
Number of businesses created and expanding	10 089
Investments ($ million)	
– CLD contribution	398.6
– Other contributions (promoters and partners)	3 630.1
Total investment	**4 028.6**

(1) Excluding the figures for 2005 to 2012 of the 18 CLDs in the Montréal region.
Sources: Ministère des Finances et de l'Économie du Québec and CLDs.

Nature of the financial assistance

The financing provided by CLDs can consist of loans, equity loans, loan guarantees, sureties, acquisitions of bonds or other debt securities, participations in the capital stock, share capital or other form of equity, excluding subsidies. This financing is provided in accordance with the utilization conditions stipulated in the LIF loan contract with the government and the investment policy.

3.2.3 $10 million to develop the residual forest biomass sector

Forest biomass is a renewable energy source that is available and frequently abundant.

Using residual forest biomass to produce energy is one option for reducing fossil fuel consumption and thus helping to achieve our energy independence objectives.

As part of Budget 2014-2015, the Québec government is undertaking to invest $10 million in a new fund to accelerate development of the residual forest biomass sector.

In this regard, the government will work with Fondaction and the Fédération québécoise des coopératives forestières (FQCF) to set up a fund with minimum capitalization of $20.2 million.

The fund's objective will be to help this new industrial sector get off the ground, demonstrate its relevance and efficiency and build up a critical mass of projects in this sector such as the physical conversion of heating installations using fossil fuels or the installation of processing and conversion centres.

The fund will seek to finance profitable projects, in which a forestry cooperative will be involved, that contribute to the creation or maintenance of local jobs, that meet biomass quality standards and have limited environmental impacts. The eligibility criteria will be specified at a later date.

As a mandatary of the Québec government, Investissement Québec will be responsible for implementing this new fund in cooperation with Fondaction and the FQCF. The government's participation in the fund will consist of an investment with an expectation of a return. To that end, the amounts necessary for the Québec government's participation will be provided via an advance from the Fonds du développement économique.

4. MAINTAIN SUPPORT TO THE MUNICIPALITIES AND THE REGIONS

Québec's economic performance depends directly on the growth of each of its regions. By focusing in particular on generous measures supporting investment, the development of Northern Québec and responsible development of our natural resources, all of Québec's regions become wealthier.

The scope of the actions brought forward in recent months is a good indication of the government's commitment to develop their full potential.

❑ Investment projects worth $1.8 billion in the regions since last October

The Québec government has clearly shown that it intends to remain involved in the development of the regions as part of *Québec's Economic Policy – Putting Jobs First*. Concrete actions are planned to foster the development of sectors directly relating to regional economic growth, including:

— targeted initiatives for the forest and oil sectors;

— the tax credit for investments at higher rates in the resource regions, ranging from 20% to 50% depending on the region, compared with 10% or 20% elsewhere in Québec;

— measures for the development of the Northern Québec, in particular investments in transportation infrastructures and workforce training establishments;

— steps to promote tourism in the regions, including modernization of Sépaq's installations.

Since last October, the Québec government has contributed to $1.8 billion in investment projects in the resource regions. These initiatives will help create or maintain roughly 2 500 direct jobs.

❑ A development plan for Gaspésie and the Îles-de-la-Madeleine

In addition, on May 9, 2013, the government unveiled its intervention strategy for the development of the Gaspésie–Îles-de-la-Madeleine region. This strategy is aimed at developing the exceptional resources of Gaspésie–Îles-de-la-Madeleine, focusing as much on the region's traditional economic sectors as on innovative sectors such as wind turbines. In particular, it stipulates a new Fonds d'aide à l'initiative régionale (FAIR), specific to Gaspésie–Îles-de-la-Madeleine, with funding of $6 million for 2013-2014.

❑ $470 million for the National Policy on Rurality

To support rural communities, the National Policy on Rurality was unveiled on December 5, 2013. With an envelope increased to a total of $470 million over 10 years, this policy seeks in particular to fund development projects selected at the RCM level and implemented for the benefit of a number of municipalities.

❑ New initiatives in Budget 2014-2015

As part of Budget 2014-2015, the government is intensifying the initiatives it has previously announced with specific initiatives for Québec's regions:

- measures to support municipalities that are central to the vitality of the regions;
- improvement to the tax credit to foster the modernization of the tourist accommodation offering in the regions;
- initiatives for regions affected by forest fires;
- support for training part-time volunteer firefighters.

Moreover, other budget initiatives described earlier provide direct support for regional economic development by supporting the natural resource sector and providing additional financing for the start-up and growth of businesses in the regions.

4.1 A renewed Québec-municipalities partnership

The government acknowledges the important contribution of municipalities in the economic, social and cultural development of every region of Québec.

The municipalities have detailed knowledge of the issues affecting their communities and, for that reason, the government will continue to support them to maintain and improve public services.

The government and its municipal partners will soon resume discussions to reach a new Québec-municipalities agreement.

However, as the entire package of steps the government has taken shows, the partnership between the Québec government, the municipalities and other players involved in the development of all of Québec's regions goes beyond a new Québec-municipalities agreement.

In Budget 2014-2015, the government is reiterating the importance of the Québec-municipalities partnership by taking immediate steps to:

- support Montréal, the engine of Québec's economic development;
- support the development of the national capital.

TABLE B.9

Investments for the development of Québec City and Montréal
(millions of dollars)

	Québec Infrastructures Plan
Montréal	
Contribute to the expansion of Pointe-à-Callière	25.0
Québec City	
Redevelop the Dalhousie site	31.0
Build an indoor ice oval	32.5
TOTAL	**88.5**

4.1.1 Reaching a new Québec-municipalities agreement

Under the Agreement on a New Fiscal and Financial Partnership with the Municipalities for the years 2007-2013, which was renewed in 2014, the government will have paid nearly $4.6 billion.

In the course of negotiating a new Québec-municipalities agreement, the government and its municipal partners will discuss major municipal issues, such as financing for local roads and mass transit and the diversification of municipal revenues.

The objective of the new Québec-municipalities agreement will be to provide municipalities with predictable financial levers that complement their existing own-source revenue so they can carry out their responsibilities, while remaining within the government's ability to pay and mindful of the objective to restore fiscal balance in 2015-2016.

Keeping to the government's financial framework will therefore be essential for reaching an agreement in the current budgetary context. Accordingly, clear priorities will have to be set.

4.1.2 Support Montréal, the engine of Québec's economic development

Montréal, as Québec's largest city and engine of its economic development, plays a major role in raising Québec's national and international profile. Its diversified cultural offering benefits all Quebecers. Indeed, international tourists recognize the city as a valued and preferred destination.

The government acknowledges the special role Montréal plays and the need to support the city's development. As part of 2014-2015 Budget, the government therefore intends to:

- reaffirm the special status of Montréal as Québec's largest city;
- contribute to the expansion of Pointe-à-Callière.

❑ Reaffirm the special status of Montréal as Québec's largest city

The Entente pour une reconnaissance du statut particulier de Montréal acknowledges the role the city plays in Québec's economy and the fact that it has particular responsibilities, notably regarding services to individuals.

Accordingly, the government is confirming an annual payment of $25 million to the Ville de Montréal to contribute to the delivery of specific services stemming from its role as Québec's largest city.

The government will enter into discussions with the Ville de Montréal to ensure that it has the tools needed to fully play its role as Québec's largest city.

❑ Contribute to the expansion of Pointe-à-Callière

Montréal will celebrate its 375th anniversary in 2017. To leave a tangible sign of this event, the government will support promising projects that help raise the city's profile.

As part of these celebrations, the Montréal Museum of Archaeology and History plans to begin a new expansion phase of Pointe-à-Callière by creating the Montréal Archaeology and History Complex to, in particular, highlight the Parliament of the United Province of Canada and the William collector sewer. The project will require total investments of some $100 million.

The government will invest up to $25 million in this project that will not only preserve, but also make archeological and historical sites of national importance accessible. The federal government, the Ville de Montréal and the Pointe-à-Callière Foundation will be invited to complete the financing.

The government's financial contribution will be included in the Québec Infrastructures Plan.

4.1.3 Support the development of the national capital

To support Québec City in its role as national capital, the government intends to invest in structuring projects reflecting the city's distinctive image. Accordingly, the government will support Québec City to:

- redevelop the Dalhousie site, on the shores of the St. Lawrence River;
- build an indoor ice oval.

☐ Redevelop the Dalhousie site

Many cruise ship passengers put in at Québec City and have a substantial economic impact on the city. For that reason, it wants to redevelop the Dalhousie site by:

- refurbishing the quays;
- developing a public space on the south portion of the land;
- building a multi-storey parking garage on the north portion.

In addition, Québec City will host a gathering of tall ships in 2017. Redevelopment of the Dalhousie site will have a positive effect on the city's image for this event.

The project will require investments of some $39 million. The government will contribute a maximum of $31 million. Québec City has undertaken to provide the balance of the financing.

The government's financial contribution will be included in the Québec Infrastructures Plan.

☐ Build an indoor ice oval

The government is confirming its support for the construction of an indoor ice oval in Québec City.

In addition to enhancing the supply of sports infrastructures for citizens, construction of an ice oval will provide Québec City with a major sports facility allowing it to hold national and international level competitions, in addition to offering a high-level training site for our athletes.

The work will require investments of some $97.5 million. The city has undertaken to provide one third of this amount, i.e. $32.5 million. The government will invest up to $32.5 million. The federal government will be invited to complete the project's financing.

The government's financial contribution will be included in the Québec Infrastructures Plan.

4.2 Improvement to the tax credit to foster the modernization of the tourism accommodation offering in the regions

The refundable tax credit fostering the modernization of the tourism accommodation offering was implemented as part of Budget 2012-2013 to accelerate and intensify infrastructure investments by accommodation establishments in Québec's regions beyond the greater Montréal and Québec City regions.

- An eligible corporation may claim this tax credit for expenditures incurred in the course of renovation or improvement work carried out before January 1, 2016.
- The 25% tax credit applies to eligible expenditures in excess of $50 000 per taxation year, up to a maximum of $750 000. The amount of the tax credit is limited to $175 000 per year.

Since the implementation of the tax credit, the $50 000 minimum threshold of eligible expenditures has prevented some modernization projects from being carried out. Some projects have been deferred so the expenditures can be incurred in one taxation year.

Accordingly, it appears that applying a minimum threshold of eligible expenditures on an annual basis is an obstacle to the objective of accelerating the modernization of the tourism accommodation offering in Québec's regions.

To enable tourism accommodation corporations to better plan their work and carry out their renovation and improvement projects more quickly, the government is announcing that the $50 000 annual threshold will be replaced with a single $50 000 threshold for measures entire application period.

This change represents additional assistance for improving the tourism accommodation offering in the regions of $100 000 in 2014-2015 and $200 000 in 2015-2016 and 2016-2017.

4.3 Initiatives for regions affected by forest fires

The forest is a heritage and source of wealth creation. It is a significant part of many regions of Québec.

Forest fires are part of the forest's cycle of regeneration. However, in some cases, they can threaten the safety of the population and a region's strategic infrastructures.

The forests of James Bay and the Basse-Côte-Nord suffered many fires in 2013 while in 2012, the forests of Abitibi-Témiscamingue were devastated by four large fires.

To better protect the role of the forest in certain regions and deal with climate changes that are expected to become more intense and the frequency of fires in the northern territory, the government is undertaking to:

- implement a civil protection plan for forest fires north of the 51st parallel next season, with an investment of $2 million in 2014-2015;
- bring an area of 11 500 hectares of public forests devastated by the 2012 fires in Abitibi-Témiscamingue into production. Accordingly, $1.5 million will be invested in reforestation this year.

These amounts will be drawn from forest royalties the government collects.

4.4 Support for firefighter training

Part-time volunteer firefighters play a front-line role in small municipalities. The disasters of Lac-Mégantic and Isle-Verte remind us that part-time volunteer firefighters are often first responders in many municipalities in Québec.

Even though they are volunteers or only work part-time, these firefighters are subject to strict requirements and must undergo hundreds of hours of training. The cost of this training is often paid or reimbursed by the municipalities, but is sometimes entirely borne by the aspiring firefighter.

To ensure that Québec's municipalities and RCMs can respond effectively to disasters, the Ministère de la Sécurité publique will implement a program with annual funding of $4 million to provide financial assistance for the training of part-time volunteer firefighters in municipalities and RCMs.

Accordingly, the Ministère de la Sécurité publique will receive appropriations of $4 million in 2014-2015 funded from the government's spending growth objective.

5. ADDITIONAL EFFORTS FOR SOCIAL HOUSING AND TO CURB HOMELESSNESS

5.1 Investment of $270 million for the construction of 3 250 social housing units

Many households have special housing needs. Having appropriate housing allows individuals, whether handicapped persons, individuals undergoing social reintegration or individuals who are victims of violence, to live independently and in safety.

To provide for the needs of economically disadvantaged households, the government is announcing the construction of 3 250 new social, community and affordable housing units.

These new housing units will be financed through the AccèsLogis Québec program.

This initiative will help house less fortunate households, in particular low-income households and those with special needs, such as a loss of autonomy.

Moreover, social housing is a key factor in improving the situation of a homeless person, in particular regarding:

- personal safety;
- social integration;
- independence.

In this regard, 500 units of this all-new component of the AccèsLogis Québec program will be reserved for persons who are homeless or at risk of homelessness.

TABLE B.10

Investments in the construction of social, community and affordable housing
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	Other years	Total
Construction of 3 250 new social housing units	—	—	—	183.7	86.3	270.0

Note: The figures have been rounded off, so they may not add up to the total indicated.

AccèsLogis Québec

The AccèsLogis Québec program enables housing boards, housing cooperatives and non-profit organizations (the promoters) to provide social and community housing units for low- or moderate-income households or clients in difficulty with special needs.

Under the program, the government, the project promoter and the community (generally the municipality) cover 50%, 35% and 15% respectively of a project's maximum eligible costs.

The amount of financial assistance depends on the territory, target client group and number of rooms of the housing unit. For example, to build a two-bedroom unit in a large urban centre, the eligible cost of construction amounts to $134 200 and is allocated as follows:

- $67 100 for the Québec government;
- $46 970 for the promoter;
- $20 130 for the community.

In view of the intended clients of these housing units, the cost of rent is set below the median market rent.

❑ More than 11 000 housing units in progress

As at January 31, 2014, 11 293 units were in progress, i.e.:

- 5 776 to be delivered in the near future;
- 5 517 others in preparation.

Including the 3 250 new units announced, an additional 14 543 social housing units will be completed over the next few years.

TABLE B.11

Construction of social, community and affordable housing units

	In progress	In preparation	New announcements	Total
Number of housing units	5 776	5 517	3 250	14 543

❑ New investments to fight homelessness

As part of this budget, the government is announcing new investments of $6 million for 2014-2015 for local services to homeless persons, particularly with respect to health and social services and for community support.

Of these new investments, $1 million will be allocated to assistance for homeless Aboriginal persons.

❑ National policy to combat homelessness

On June 17, 2013 the Minister for Social Services and Youth Protection opened the Forum de consultation sur le projet de la Politique nationale de lutte à l'itinérance.

The forum highlighted the importance of social housing and the proximity of health services and social services to prevent and effectively combat homelessness. It also provided an opportunity to hear from and discuss with a large number of stakeholders in order to provide Québec with a new national policy to combat homelessness and the resulting action plan.

The investments in the 500 social housing units as well as the new funds announced to combat homelessness follow in the wake of the initial national policy to combat homelessness. The new policy will be made public in the near future by the Minister for Social Services and Youth Protection.

6. MORE SUPPORT TO DEVELOP QUÉBEC'S CULTURAL SECTOR

Culture is a basic component of Québec's identity. It allows Québec to shine on the international stage and helps open Québec society to the world.

At the same time, it is an engine of economic activity, making a significant contribution to the creation of employment and wealth in Québec. Each year, culture and communications represent 130 000 jobs and $10 billion in economic activity. Because of its contribution to Québec society, the Québec government is taking concrete steps to ensure its development.

On January 17, 2013, the Premier set up the Task Force on Cultural Philanthropy. The task force was mandated to propose possible solutions to the government to promote private donations and facilitate access by cultural organizations to assistance measures.

In this regard, the Québec government has already acted on most of the recommendations in the report. As part of Budget 2014-2015, the government is taking another step by confirming the creation of the Fonds Avenir Mécénat Culture and contributing to perpetuate its financing. This will secure long-term stability for assistance to cultural bodies.

Moreover, more than in any other sector of the economy, the business model in culture is being turned upside down by changes in technology, from creation to commercialization. Accordingly, the Québec government intends to bring forward its digital culture strategy to mobilize support within the artistic and cultural community for a modern and innovative project.

6.1 Contribute to the perpetuation of financing of cultural bodies

To ensure stable and predictable support for philanthropy and encourage patrons to make long-term commitments to cultural bodies, the Premier of Québec announced, on July 3, 2013, the creation of the Fonds Avenir Mécénat Culture in 2014-2015.

Acting on this government commitment, this budget is announcing the creation of the fund that will perpetuate the financing of various components of the Mécénat Placements Culture program, the main tool to stimulate gifts and increase the impact of philanthropy among cultural bodies.

To secure the long-term viability of the Mécénat Placements Culture program, the fund will receive, beginning in 2014-2015, $5 million annually from the revenues of the specific tax on tobacco products. In addition, the budgetary appropriations allocated to the Ministère de la Culture et des Communications to fund the Mécénat Placements Culture program will be dedicated exclusively to the fund. This fund will be created as part of the budget omnibus bill.

6.2 $150 million to continue the cultural sector's digital shift

To enable Québec's media and cultural industries to continue the digital shift, from the creation of works to their commercialization, the government is announcing investments of $150 million to implement Québec's new digital culture strategy.

The Minister of Culture and Communications will unveil Québec's digital culture strategy in the near future.

❑ Opportunities for the taking

More than in any other sector of the economy, changes in technology have transformed how cultural products are produced, distributed and consumed. Accordingly, in Québec as elsewhere, businesses in the cultural sector face a multiplicity of challenges: transformation of business models, abundant supply and new consumer habits.

While steps have been taken in recent years to make the digital shift, there is still a long way to go. The objective of Québec's strategy is to mobilize the cultural communities to adopt digital technology to perpetuate our culture and allow it to shine and renew itself.

❑ Three major orientations to take up these challenges

Québec's new digital culture strategy will help occupy the cultural space by focusing on the creative strengths of every region of Québec both for the production of new cultural content and its distribution. It will have three major orientations:

- enrich the supply of digital cultural content by making the existing supply available and supporting the creation of original digital content;
- distribute content and make it accessible by focusing on new digital tools and new consumer habits to increase availability, facility of access and the visibility of Québec content;
- create a favourable environment for digital development by adapting the legislative, regulatory, legal and commercial structures that frame content.

To implement Québec's digital culture strategy:

- as of 2014-2015, $100 million over seven years will be earmarked in the Québec Infrastructures Plan;
- as of 2014-2015, $50 million over five years will be allocated to the Ministère de la Culture et des Communications to be funded from the government's spending growth objective.

7. RECOMMENDATIONS OF THE TASK FORCE ON THE PROTECTION OF QUÉBEC BUSINESSES

The government seeks to adopt measures to attract, develop and maintain businesses in Québec.

Accordingly, retaining head offices, and especially corporations considered Québec standard-bearers, is one of its chief preoccupations.

Consequently, the government set up the Task Force on the Protection of Québec Businesses on June 7, 2013.

The task force was mandated to recommend measures to better protect Québec businesses from unsolicited takeovers and measures to help retain and attract head offices to Québec.

The following recommendations deal with the Québec *Business Corporations Act* (BCA) and securities regulators.

☐ Recommendations respecting the Québec *Business Corporations Act*

- Amend the BCA to make possible the adoption of variable voting rights according to the length of time that the shares of corporations are held. The Task Force proposes the following implementation formula:
  - the voting shares of the corporation may include an additional voting right when the veritable owner has held such shares for two years or more.
    - The measure stipulated could be included in the articles of constitution of the corporation.
    - It might also be introduced into the corporation's articles of incorporation subsequent to its incorporation or be withdrawn at any time by special resolution of the shareholders, in which case the shareholders could exercise their usual rights.
- Amend the BCA to allow for the adoption of provisions to prohibit certain transactions by corporations subject to a takeover bid not approved by the board of directors. The Task Force proposes the following implementation formula:
  - a merger or other amalgamation of the assets of the corporation with those of the offeror or a substantial sale of assets representing 15% of the corporation are prohibited for five years;
  - the offeror must give to the corporation the profits made in the 24 months following the takeover bid at the time of resale of the shares of the corporation purchased during the 12 months preceding the launching of the takeover bid;
  - the revocation of the term of office under way of a director (of a maximum duration of three years) may not occur before the end of his term;

- the offeror may not exercise its voting right in respect of the shares that it holds after the launching of the takeover bid. This measure will apply until the other shareholders, excluding the directors and the manager-shareholders, adopt a resolution with two-thirds of the votes restoring the voting rights to the initiator of the takeover bid and persons related thereto;
- the measures stipulated above could be included in the articles of constitution of the corporation;
- they might also be introduced into the corporation's articles of incorporation subsequent to its incorporation or be withdrawn at any time by special resolution of the shareholders, in which case the shareholders could exercise their usual rights.

☐ Recommendations concerning securities regulators

- The Task Force supports the proposal of the Autorité des marchés financiers to allow the board of directors of corporations that are subject to a hostile takeover bid to fully exercise their fiduciary duties and believes that the proposal, insofar as it is applied to all companies listed on the stock exchange that are reporting issuers in Canada could restore balance between the initiator of the unsolicited takeover bid and the offeree. In this perspective, the Task Force recommends that the Minister of Finance and the Economy determine whether legislative or regulatory amendments might facilitate such an implementation of the Autorité's proposal.
- Convert the Bureau de décision et de révision into a specialized administrative tribunal comprising judges from the Court of Québec. The structure of the tribunal could draw inspiration from the Professions Tribunal.

The government intends to move quickly to amend the Québec *Business Corporations Act* to include defence options for corporations wishing to make use of them.

In addition, the government will bring forward the recommendations concerning the *Securities Act* to propose legislative and regulatory amendments that may be adapted to the Canadian context of harmonization.

Lastly, the government notes the other measures recommended by the Task Force.

Section C

QUÉBEC ECONOMY:
RECENT DEVELOPMENTS AND OUTLOOK FOR 2014 AND 2015

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INTRODUCTION

☐ Little change since November

The economic climate is similar to that described in November, although some of the clouds over the Québec economy have since lifted.

— Economic growth in the United States firmed up in the second half of 2013.

— The Canadian dollar continued its depreciation, bolstering Québec exports.

However, inflation remains low in several advanced economies.

☐ Gradual acceleration in 2014, still marked by uncertainty

The global economy is gradually starting to recover. However, the recovery will be affected by lingering uncertainty, leading to gradual and moderate acceleration of the global economy to 3.5% in 2014 and 3.8% in 2015, compared to 3.2% in 2012 and 3.0% in 2013.

— The gradual strengthening of the economy will profit from the improving situation in advanced economies. Generally speaking, the latter will benefit from the attenuated impact of fiscal austerity measures and the household deleveraging process that has been taking place in the last few years, particularly in the United States.

— Emerging economies should also see stronger growth than in 2013, although at lower rates than before the last recession.

TABLE C.1

Economic growth
(real GDP, percentage change)

	2012	2013	2014	2015
Québec	1.5	1.2	1.9	1.9
Canada	1.7	1.8	2.3	2.5
United States	2.8	1.9	2.8	2.9
Euro area	–0.7	–0.4	0.9	1.4
Emerging economies	4.7	4.6	4.9	5.3
Global	3.2	3.0	3.5	3.8

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight, International Monetary Fund, Datastream and Ministère des Finances et de l'Économie du Québec.

☐ A still-fragile international economic context

In recent years, economic activity has been affected by a sluggish recovery in the global economy following the recession. In fact, the rebound experienced in 2010, at the end of the recession, was followed by a slowdown in global economic growth.

The global economy grew 3.0% in 2013 amidst a fragile international context.

— The impact of the financial difficulties seen since 2008 continued to affect growth in advanced economies. A number of advanced nations experienced a marked slowdown in inflation, reflecting weak domestic demand, among other things.

— Emerging nations, whose economies rely more extensively on exports, suffered the effects of slower growth in global demand. In addition, some are facing heavy capital outflows.

In Québec, the economy continued to expand at a moderate rate in 2013. Real gross domestic product (GDP) rose by 1.2%, reflecting a more modest growth in domestic demand despite a rebound in exports.

— The slight upward revision in real GDP in 2013, from the 0.9% growth forecast in November to a growth rate of 1.2%, is primarily attributable to a steadier increase in exports than expected.

— However, the faster growth in real GDP did not extend to nominal GDP, which was affected by lower-than-anticipated inflation.

Growth in GDP should gradually get stronger in 2014 and 2015. Real GDP should expand 1.9% both of these years due to faster growth in the global economy and, more specifically, in the United States.

— The stronger growth should gradually bring inflation closer to its historical values of around 2%, further supporting growth in nominal GDP.

In Canada, economic growth remained at 1.8% in 2013, an equivalent rate to that seen in 2012. Weaker domestic demand and an uncertain international context hampered economic growth in 2013.

— Real GDP growth should gradually accelerate to 2.3% in 2014 and 2.5% in 2015, with the anticipated strengthening of the U.S. economy.

In the United States, after expanding 1.9% in 2013, economic growth should accelerate to 2.8% in 2014 and 2.9% in 2015.

— This moderate growth will be spurred by less fiscal uncertainty and a stronger private sector owing to, among other reasons, heightened consumer and business confidence.

1. ECONOMIC OUTLOOK FOR QUÉBEC

The Québec economy saw moderate growth in 2013, at 1.2%, primarily due to a slowdown in domestic demand.

- Growth in real GDP has nevertheless been adjusted upward by 0.3 percentage point in 2013 in relation to what was forecast last November, because year-end 2013 was stronger than anticipated.

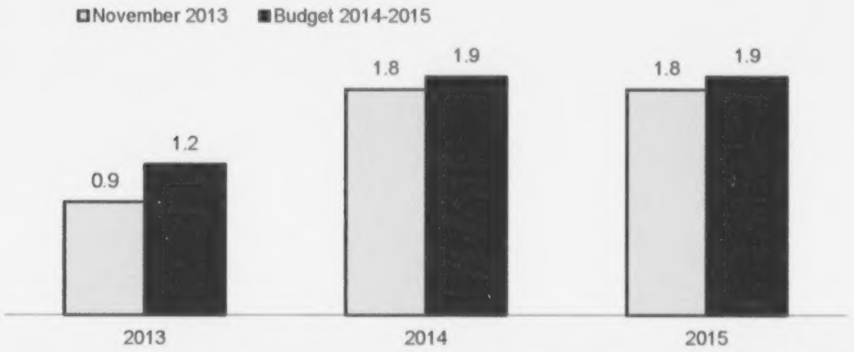
- Among other factors, economic growth in 2013 saw a stronger contribution from the external sector due to depreciation in the Canadian dollar.

Stronger growth in the United States and gradual improvement in the global economy should lead to a gradual strengthening of economic activity in Québec.

- Real GDP should thus grow by 1.9% in 2014 and 2015, or 0.1 percentage point more a year than forecast in November.

CHART C.1

Economic growth in Québec
(real GDP, percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.1 Nominal GDP affected by weak prices in 2013

Nominal GDP, which measures the value of output accounting for the impact of prices, grew by 2.1% in 2013 and should increase by 3.5% in 2014 and 3.9% in 2015.

— Growth in nominal GDP reflects a progression in real GDP of 1.2% in 2013 and 1.9% in 2014 and 2015, and higher prices for goods and services produced or imported in Québec, i.e. up 0.9% in 2013, 1.6% in 2014 and 2.0% in 2015.

Prices rose surprisingly little in 2013. The anticipated strengthening of the economy in 2014 and 2015 will lead to a gradual return of inflation, spurring growth in nominal GDP. This gradual acceleration will be reflected in increases in the key tax bases of the government.

TABLE C.2

Economic growth in Québec
(percentage change)

	2013	2014	2015
Real GDP			
Budget 2014-2015	1.2	1.9	1.9
November 2013	0.9	1.8	1.8
Adjustment	0.3	0.1	0.1
Nominal GDP			
Budget 2014-2015	2.1	3.5	3.9
November 2013	2.1	3.6	3.9
Adjustment	0.0	–0.1	0.0

Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Marked deceleration in the consumer price index in 2013

Economic activity in most of the advanced economies, particularly in the euro area and the United States, is changing against a backdrop of weak inflation.

Despite an improvement in economic conditions in the second half of the year, the consumer price index (CPI) grew at a much slower pace in Québec in 2013. After rising by 2.1% in 2012, it edged up just 0.7% in 2013.

Dampened growth in prices in 2013 is attributable, among other things, to:

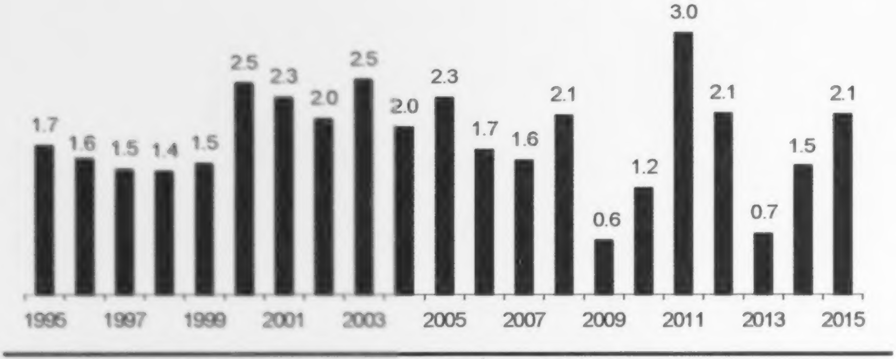
- surplus global supply at a time when production capacity is underutilized in advanced economies and emerging economies have made a significant contribution to global supply through low-cost products;
- moderate growth in domestic demand, which is exerting little pressure on prices;
- stiffer competition in the retail trade, reflected in the price of goods.

Moreover, currently weak prices are not specific to Québec. In Canada, the CPI grew by 0.9% in 2013.

More robust demand, in particular in advanced economies, should lead to less underutilization of production capacity. In Québec, inflation should accelerate to 1.5% in 2014 and 2.1% in 2015, thus gradually returning to the 2.0% target set by the Bank of Canada.

CHART C.2

Consumer price index in Québec
(percentage change)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.2 Components of real GDP: growth will be supported primarily by business investment and exports

The 1.2% increase in real GDP in 2013 was buoyed by exports. The latter will continue to stimulate growth in the coming years and lead to an acceleration in business investment.

- Despite the still-fragile international context, exports improved markedly in 2013. The growth in exports, combined with weaker progression in imports, resulted in a stronger contribution from the external sector to Québec's economic growth in 2013. With the brighter outlook for the global economy, exports should continue to expand in 2014 and 2015.
- Domestic demand slowed in 2013. It should be more robust in 2014 and 2015, but still see only moderate growth.
  - Non-residential business investment should accelerate again in 2014 and 2015 as demand firms up and exports continue to recover.
  - Moderate growth in household spending should continue in 2014 and 2015.
  - Total spending by all governments stabilized in real terms and will remain at similar levels.
  - The downturn in residential investment that began in 2013 should ease gradually in the coming years.

TABLE C.3

Real GDP and its major components
(percentage change)

	2013	2014	2015
Domestic demand	**1.0**	**1.4**	**1.3**
Household consumption	2.0	2.2	2.0
Residential investment	–2.5	–2.2	–1.3
Non-residential business investment	0.7	3.2	3.2
Government spending and investment	0.1	–0.1	0.0
External trade	—	—	—
Total exports	3.5	3.0	3.2
Total imports	0.2	1.9	2.4
REAL GDP	**1.2**	**1.9**	**1.9**

Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.3 The positive labour market trend continues

The labour market put in another strong performance in 2013, creating 47 800 jobs, a 1.2% increase compared to the previous year and the biggest increase of the last three years.

— The unemployment rate fell to 7.6% on average in 2013, after standing at 7.8% in 2012 and 2011.

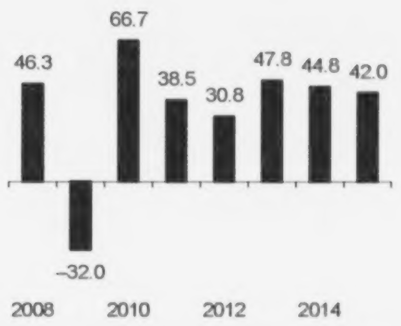
Job creation should continue with the anticipated acceleration in economic growth.

— 44 800 jobs should be created in 2014 and 42 000 in 2015, for increases of 1.1% and 1.0% respectively.

— The unemployment rate should continue to fall gradually, from 7.6% in 2013 to 7.4% in 2014 and 7.2% in 2015.

CHART C.3

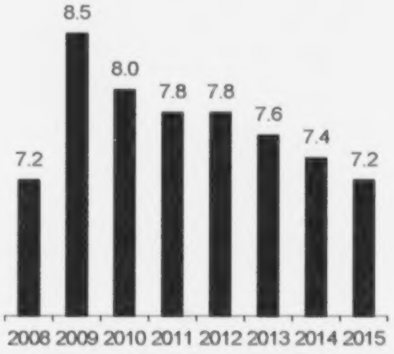
Job creation in Québec
(in thousands)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART C.4

Unemployment rate in Québec
(as a percentage)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Constant improvement in the Québec labour market over the past few decades

Driven by employment-oriented public policies, Québec's labour market has continued to improve over the last few decades.

- The Québec labour market has continued to firm up in recent years, reducing the historical gaps with Canada.

Key labour market indicators
(population aged 15-64, as a percentage)

	Unemployment rate		Participation rate		Employment rate	
	Québec	Canada	Québec	Canada	Québec	Canada
1980	10.1	7.6	67.7	71.6	60.8	66.1
1990	10.5	8.2	72.9	76.6	65.3	70.3
2000	8.5	6.9	73.4	76.2	67.1	70.9
2010	8.0	8.1	77.3	77.8	71.1	71.5
2013	7.7	7.2	78.2	78.1	72.2	72.5

Source: Statistics Canada.

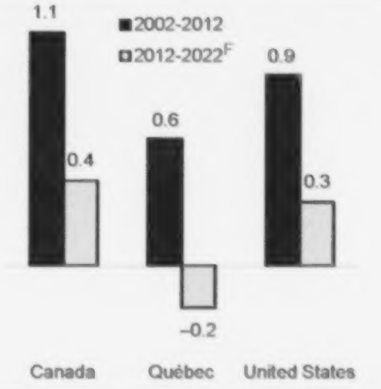
Aging population – A challenge for Québec

Economic growth is largely tied to changes in employment and the labour force. Yet, in the coming years, the Québec population will age more rapidly than that of Canada and the United States.

The anticipated decline in the population aged between 15 and 64 will therefore present a sizable challenge. Aging of the working-age population will put pressure on the overall labour force participation rate.

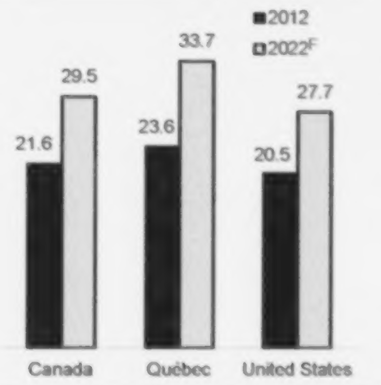
Population aged 15-64

(average annual growth, in per cent)



F: Forecast.
Sources: Institut de la statistique du Québec, Statistics Canada and US Census Bureau.

Aging population
(ratio of population aged 65 and over to the population aged 15-64, in per cent)



F: Forecast.
Sources : Institut de la statistique du Québec, Statistics Canada and US Census Bureau.

Job creation in Québec, Ontario and Canada, by sector

Job creation concentrated in the construction and public sectors[1]

From 2007 to 2013, most of the jobs created in Québec, Ontario and Canada were in the construction and public sectors. These two sectors alone accounted for approximately 70% of the jobs created in Québec and Canada, and 80% in Ontario.

- Construction jobs rose by 4.8% a year on average in Québec, compared to 1.9% in Ontario and 3.1% in Canada.
- Public sector jobs increased by 2.1% a year on average in Québec, versus 2.7% in Ontario and 2.3% in Canada.

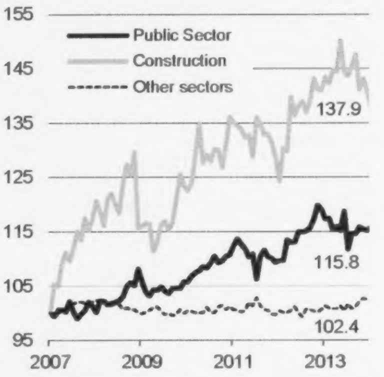
Job creation by different sectors of activity – 2007 to 2013
(thousands of jobs and average annual growth in per cent)

	Québec		Ontario		Canada	
	Jobs	**%**	**Jobs**	**%**	**Jobs**	**%**
Construction	71.7	4.8	57.7	1.9	257.3	3.1
Public sector	141.6	2.1	286.0	2.7	643.6	2.3
Other sectors	76.4	0.4	87.0	0.3	420.1	0.5
TOTAL	**289.7**	**1.1**	**430.7**	**0.9**	**1 321.0**	**1.1**

Source: Statistics Canada.

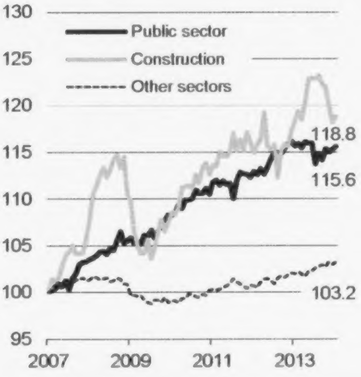
The contribution of other sectors[2] to job creation during this period was thus disappointing, in Québec as well as in Canada and Ontario, with average annual growth rates of 0.4%, 0.3% and 0.5%, respectively.

Job creation in Québec
(index, January 2007 = 100)



Source: Statistics Canada.

Job creation in Canada
(index, January 2007 = 100)



Source: Statistics Canada.

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[1] Public sector jobs correspond to the sum of the three industries related to the public sector, i.e. heath care and social services, educational services and public administrations.

[2] "Other sectors" corresponds to total employment less employment in the construction and public sectors.

1.4 Moderate growth in household spending

Growth in household spending is continuing at a moderate pace. After slowing to 1.2% in 2012, consumer spending grew by 2.0% in real terms in 2013.

This modest growth in consumption is attributable, in particular, to:

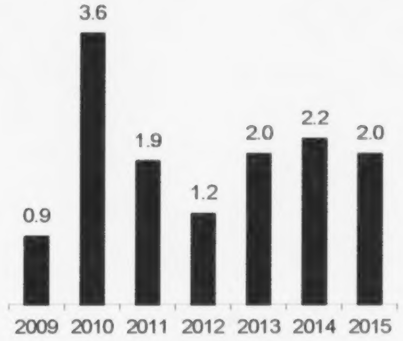
- the fragility of consumer confidence, stemming among other things from continued uncertainty in the global economic situation;
- the slowdown of the residential sector, which is limiting purchases of certain goods such as construction materials for home renovation, furniture and household appliances;
- the trend observed for households to improve their balance sheets. The household savings rate stood at 3.0% in 2013, up from 2.4% in 2010.

The effects of some of these factors will dissipate slowly over the coming years. Household spending should continue to grow, at a rate of 2.2% in 2014 and 2.0% in 2015, in particular under the impetus of ongoing job creation, growth in household income and greater consumer confidence.

Furthermore, although growth in weekly wages slowed from 2.5% in 2012 to 1.4% in 2013, it still outpaces inflation.

CHART C.5

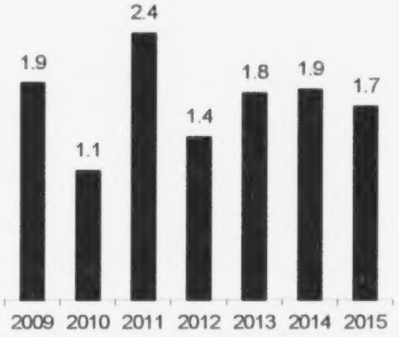
Household spending in Québec
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART C.6

Household disposable income in Québec
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Sluggish growth in nominal consumption

Weak prices affected consumer spending growth, in nominal terms, in both Québec and Canada.

- In Québec, the value of consumer spending increased by 2.9% in 2013, compared with 4.8% in 2010 and 4.0% in 2011.
- In Canada, the value of consumer spending increased by 3.3% in 2013, after rising by 4.9% in 2010 and 4.4% in 2011.

Low inflation and more moderate wage growth

The downturn in nominal consumption stems, in particular, from low inflation.

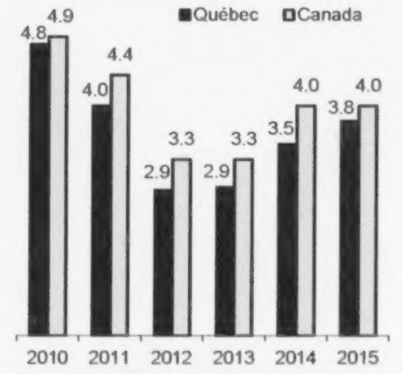
- In fact, the consumption deflator rose by only 0.9% in 2013, compared to 1.7% in 2012 and 2.1% in 2011.
- The weak prices are also reflected in more moderate growth in wages and salaries, which slowed from 3.7% in 2012 to 2.6% in 2013. The growth of wages and salaries nevertheless outpaces that of inflation.

A positive outlook

The weak prices that affected nominal consumption should dissipate over the coming years. The consumption deflator is expected to increase gradually from 0.9% to 1.2% in 2014 and 1.8% in 2015. Consequently:

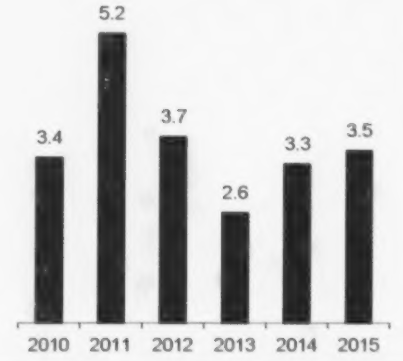
- growth in nominal consumption should pick up pace, reaching 3.5% in 2014 and 3.8% in 2015;
- wages and salaries should grow by 3.3% in 2014 and 3.5% in 2015.

Household spending
(percentage change, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Wages and salaries in Québec
(percentage change, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.5 Declining residential investment

The downturn in the residential sector in 2013 was more pronounced in Québec than in Canada. The contraction stems from an adjustment exacerbated by the successive measures to tighten mortgage lending rules introduced by the federal government to limit the expansion of mortgage credit in Canada.

In this context, residential investments in Québec contracted by 2.5% in 2013. The contraction should ease gradually over the coming years, with residential investments expected to decline by 2.2% in 2014 and 1.3% in 2015.

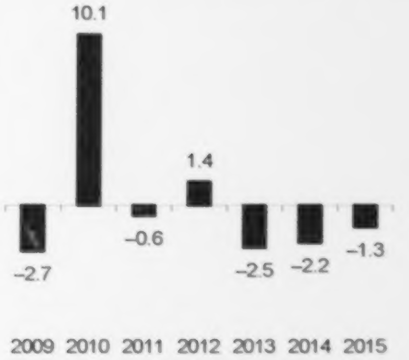
This trend mainly reflects the change in housing starts.

- Housing starts dropped 20.3% in 2013, to 37 800 units, thus already standing at levels below household formation in Québec, which is around 40 000 households per year.
- The residential sector should stabilize gradually in 2014 and 2015, and housing starts should be roughly 36 000 units per year.

Moreover, the currently low mortgage interest rates, which should rise only gradually, and the measures announced by the Québec government to encourage green home renovation, will help buoy residential investment in Québec.

CHART C.7

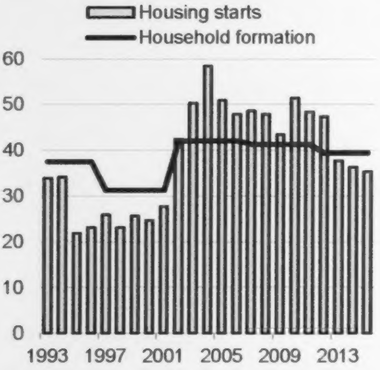
Residential investment in Québec
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART C.8

Housing starts and household formation in Québec
(thousands of units)



Sources: Institut de la statistique du Québec, Statistics Canada, Canada Mortgage and Housing Corporation and Ministère des Finances et de l'Économie du Québec.

Outlook for the Québec residential sector

Following a long upward cycle, the residential sector contracted in 2013

As in the rest of Canada, the Québec residential sector expanded from 2002 to 2012. This long upward cycle was marked by higher housing starts than household formation and housing prices that rose at a faster pace than household income.

Nevertheless, there was an adjustment in the Québec residential sector in 2013, with housing starts falling by 20.3% and sales of existing homes dropping by 7.9%.

The downturn primarily stems from the latest tightening of mortgage rules by the federal government. The latest series of measures, which took effect in July 2012, included the reduction in the maximum amortization period for insured mortgage loans from 30 to 25 years.

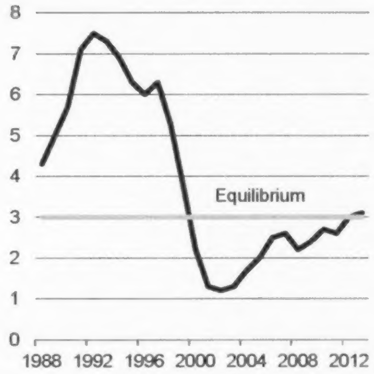
On the whole, the residential sector is balanced in Québec

In 2013, the Québec residential sector was balanced.

- The vacancy rate for rental housing stood at 3.1%, near its estimated equilibrium level of 3.0%. This follows a shortage in rental housing in the early 2000s.
- The ratio of sales to new listings indicates that the home resale market is also balanced on the whole. Therefore, housing prices should go up within the next few years, at a similar rate than inflation.

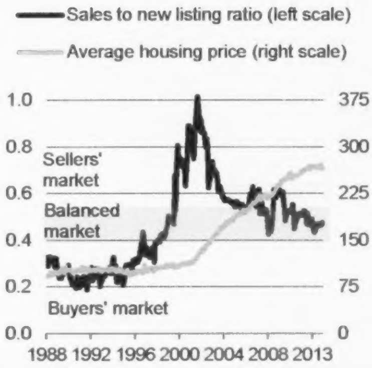
In this context, new measures by the federal government to tighten mortgage rules would be superfluous and could potentially have a negative impact on the Québec housing market as well as on the Québec economy as a whole.

Rental vacancy rate
(as a percentage)



Sources: Canada Mortgage and Housing Corporation and Ministère des Finances et de l'Économie du Québec.

Residential resale market



Sources: Canadian Real Estate Association and Ministère des Finances et de l'Économie du Québec.

1.6 Non-residential investment remains high

Non-residential investment, especially from businesses, remains one of the key drivers of economic activity in Québec.

In 2013, the value of total non-residential investment in Québec remained at much the same levels as in 2012. Stronger global growth, particularly in the United States, should spur growth in non-residential investment in Québec in the coming years.

- The value of total non-residential investment should climb by 3.6% in 2014 and by 2.5% in 2015, raising the value of non-residential investment to over $57 billion.

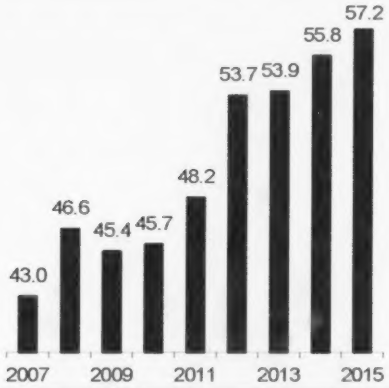
❑ Government investments

The federal and provincial governments are in the process of rebalancing their budgets. However, they continue to maintain infrastructure investments at a high level, in particular the Québec government, while continuing efforts to restore fiscal balance.

- Accordingly, investments by all public administrations in Québec, i.e. by the Québec government and local and federal governments, will remain high.
- These investments will remain over $18 billion in 2014 and 2015, nearly 45% higher than in 2007.

CHART C.9

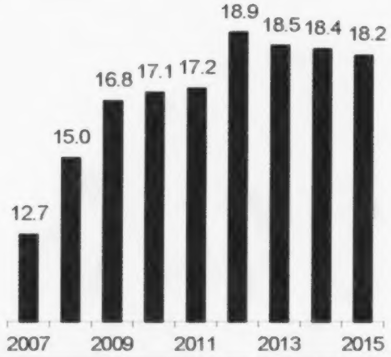
Total non-residential investment in Québec
(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART C.10

Government investments in Québec
(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Non-residential business investment

Since 2011, Québec firms have followed the lead of governments in terms of non-residential investment, sustaining economic growth. In 2013, business investments continued to grow despite the effects of the strike in the construction sector.

This trend will continue, with non-residential business investment increasing by 5.9% in 2014 and 4.1% in 2015, raising its value to $39 billion in 2015.

Overall, businesses continue to benefit from conditions that are favourable to increasing their productivity.

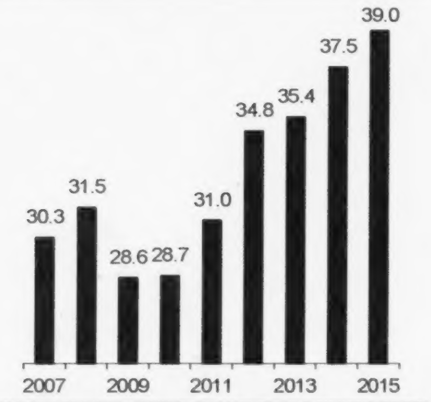
— The improvement in global economic growth will foster more sustained demand.

— In addition, businesses will continue to benefit from favourable financial conditions thanks to advantageous interest rates.

Furthermore, in the wake of a 3.9% increase in 2013, the value of investments in machinery and equipment will rise by 6.2% in 2014. In 2015, it should climb by 2.2%.

CHART C.11

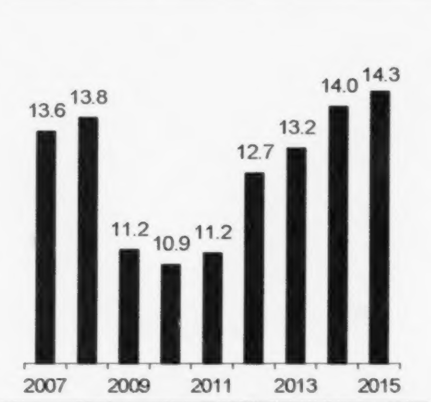
Non-residential business investment in Québec
(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART C.12

Business investment in machinery and equipment in Québec
(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Temporary decline in corporate profits

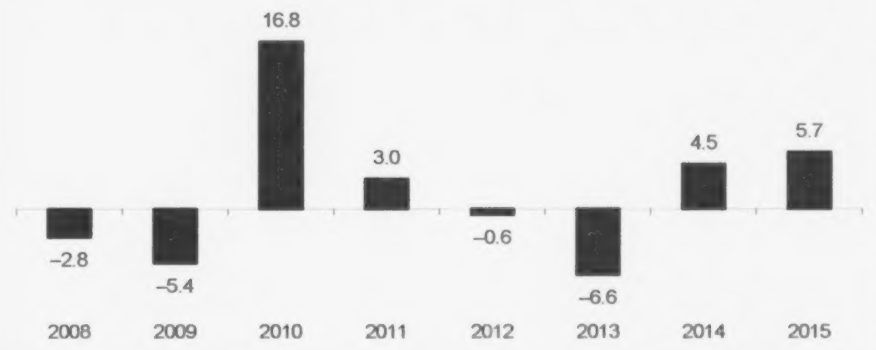
Since 2012, growth in corporate profits has been limited in both Québec and in Canada by the slow upturn in exports and moderate growth in consumption and prices. Profits contracted by 0.6% in 2012 and 6.6% in 2013.

- The sluggish growth recorded by Québec's main trading partners and stiff competition from emerging economies on foreign markets lowered the profits of Québec corporations in 2012 and 2013.
- Regarding domestic demand, moderate growth in consumption and the faltering residential sector have also dampened growth in profits. Furthermore, corporate profits have been affected by generally weak prices.

The situation should gradually improve as exports and household consumption revive. As a result, profits should increase by 4.5% in 2014 and 5.7% in 2015.

- Indeed, stronger growth among Québec's main trading partners should lead to greater demand for Québec export products, which will also benefit from a weaker Canadian dollar.
- In addition, growth in household spending should accelerate, in particular under the impetus of ongoing job creation, continued improvement in household income and stronger consumer confidence.

Net operating surplus of Québec corporations
(percentage change, in nominal terms)



Note: According to the new nomenclature used by Statistics Canada, the net operating surplus of corporations includes, in particular, the profits and investment income of businesses.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Increasing the capital stock in the manufacturing sector

Importance of capital stock

Investment and capital stock are crucial to improving the competitiveness of businesses, in particular that of manufacturing firms facing stiffer competition from emerging economies. The capital stock available to workers improves labour productivity and thereby ensures job creation and a better standard of living for citizens.

Catching up to do

In recent years, businesses have enjoyed conditions that are favourable to increasing their investment level.

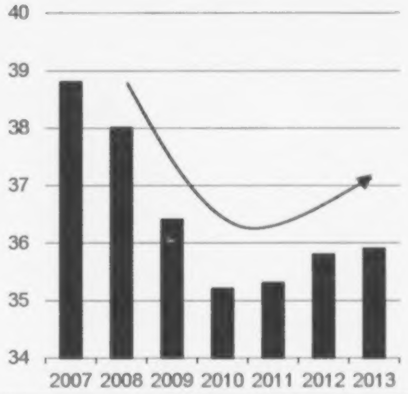
- Business investment rose by 12.0% in 2012 and 1.7% in 2013, reaching a value of $35.4 billion in 2013.

Heightened business investment led to, among other things, an increase in capital stock in the manufacturing sector. However, capital stock in the Québec manufacturing sector has still not reached pre-recession levels.

- Despite increasing its capital per worker, Québec is still $2 000 behind Ontario and $9 000 behind Canada.

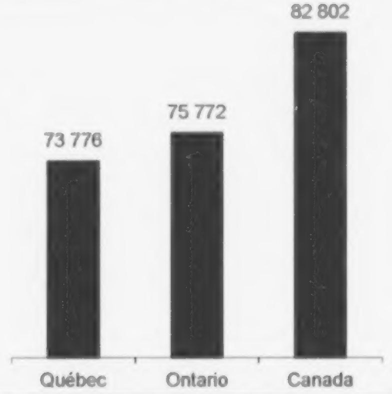
Québec's Economic Policy – Putting Jobs First contains a wide range of measures to stimulate private investment. One of the objectives of this policy is to match the Canadian average in terms of investment in machinery and equipment per worker.

Capital stock in the Québec manufacturing sector
(billions of dollars, in real terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Capital stock in the manufacturing sector in 2013
(dollars per worker, in real terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.7 External trade: a recovery in exports

Québec's economy is open to the world. Exports account for 45% of GDP and the Québec economy is largely influenced by the situation of its trading partners.

Several external factors have hampered growth in Québec exports in recent years, in particular:

— weak economic growth in Canada and the United States and economic difficulties in the euro area.

Despite the fact that the external context remains fragile, in 2013, Québec exports have firmed up, with the value of total exports climbing by 4.9%.

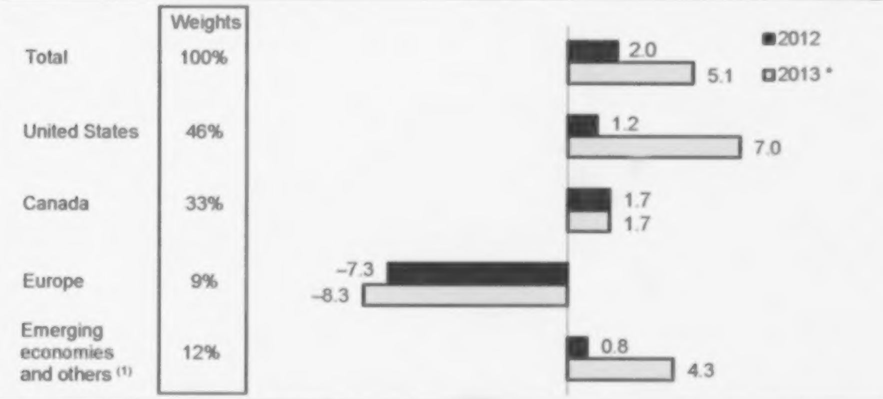
— Québec's goods exports to the United States were up 7.0% in nominal terms.

— In addition, goods exports to emerging economies, in particular China and India, continued to grow, expanding by 4.3% in 2013.

In 2014 and 2015, Québec exports should further benefit from stronger economic growth, particularly in the United States, as well as from the level of the Canadian dollar, which will be favourable to exporters.

CHART C.13

Québec goods exports by destination
(percentage change, in nominal terms)



* Data for the first three quarters of 2013 in relation to the same period in 2012, on a customs basis. For Canada, on an economic accounts basis.

(1) Includes, in particular, China, Japan, Mexico, Brazil, India and Australia.

Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

☐ Exports

Québec primarily exports metal products, pulp and paper and wood products, machinery and equipment, and aircraft and aircraft parts.

Total exports were more robust in 2013 due to stronger economic growth in the United States, in particular during the second half of the year. In addition, the depreciation of the Canadian dollar, which fell from an average of 100.1 U.S. cents in 2012 to 96.6 U.S. cents in 2013, favours Québec exports.

— In real terms, exports increased by 3.5% in 2013, in the wake of a 1.6% upturn in 2012.

In the coming years, Québec exports will continue to benefit from the strengthening of the world economy and a weaker Canadian dollar.

— Exports should grow by 3.0% in 2014 and 3.2% in 2015.

☐ Imports

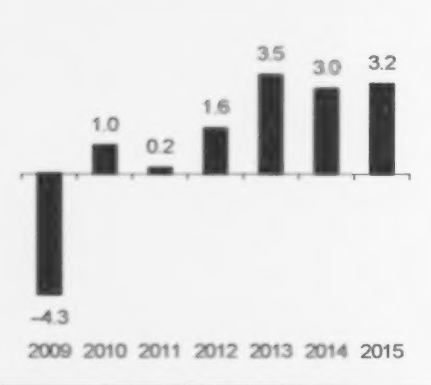
Québec mainly imports consumer goods, machinery and equipment and inputs for the manufacture of products.

— In 2013, imports increased by only 0.2%, reflecting the more modest growth in domestic demand.

— Stronger domestic demand and exports should drive import growth to 1.9% in 2014 and 2.4% in 2015.

CHART C.14

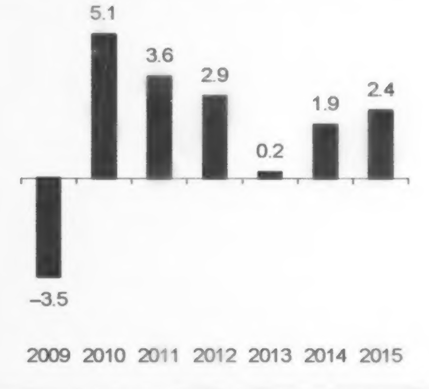
Québec's total exports
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART C.15

Québec's total imports
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Québec exports, a diverse structure

Québec exports a wide variety of products:

- accounting for 19.7% of its international exports of goods, metal products are the largest category of exported products;
- consumer goods come next, at 14.6% of total exports;
- forest products rank third, at 14.1%;
- machinery and equipment (12.9%), aircraft and aircraft parts (11.6%) and chemical, plastic and rubber products (6.9%) also account for large shares of Québec's exports.

Québec's international exports of goods in 2012
(millions of dollars, in nominal terms)

	Level	Share as a percentage
Farm, fishing, and intermediate food products	1 930	3.0
Energy products	3 549	5.6
– Electricity	897	1.4
– Refined petroleum products	2 557	4.0
Ores	3 010	4.7
Metal products	12 529	19.7
Chemical, plastic and rubber products	4 372	6.9
– Chemical products	2 146	3.4
– Plastic and rubber products	2 226	3.5
Forest products	8 968	14.1
– Pulp and paper	5 159	8.1
– Wood and wood products	1 640	2.6
Machinery and equipment	8 179	12.9
– Industrial machinery	4 120	6.5
– Office equipment	4 060	6.4
Automobiles and parts	1 940	3.1
Aircraft and aircraft parts	7 398	11.6
Other transportation equipment	894	1.4
Consumer goods	9 253	14.6
– Food, beverages and tobacco	4 234	6.7
– Pharmaceutical products	1 083	1.7
Special commercial transactions	1 550	2.4
TOTAL	**63 571**	**100.0**

Source: Institut de la statistique du Québec.

Québec and Canadian exports are not benefiting fully from the increased U.S. and international demand since 2011

Historically, Québec exports have been closely tied to U.S. demand for Québec products. However, this is changing.

- Since 2011, the index of U.S. demand for Québec products (IUSDQP) has increased by 11.7%, while Québec's international exports have grown by 7.6%.

A similar phenomenon can be seen in Canada, where the foreign activity index outstripped Canadian exports.

- In fact, the foreign activity index has climbed by 11.3% since 2011, compared to a 3.3% increase in Canadian exports.

A strong Canadian dollar harmed the competitiveness of exporting businesses. The recent depreciation of the Canadian dollar relative to the U.S. dollar should enable them to increase their exports to the United States.

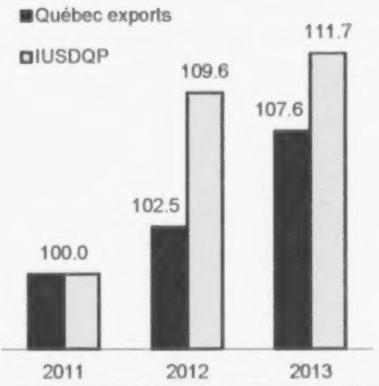
However, if they want to benefit from the heightened foreign demand, Québec and Canadian manufacturing firms will have to invest in order to face the stiff international competition.

Stronger U.S. demand for Québec products

Québec exports should benefit from the acceleration of economic growth in the United States in 2014 and 2015. Exports will be driven by increased investment by U.S. firms and recovery of the U.S. residential sector.

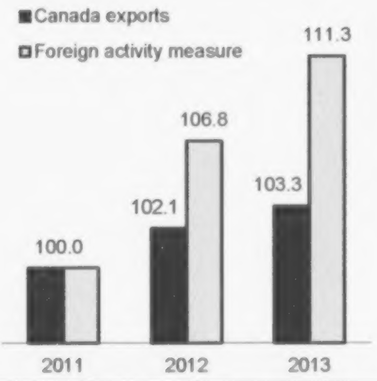
- After rising by 1.9% in 2013, the IUSDQP should climb by 5.5% in 2014 and 6.9% in 2015.

Change in Québec exports and the IUSDQP
(index, 2011 = 100, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Change in Canadian exports and foreign activity
(index, 2011 = 100, in real terms)



Sources: Bank of Canada, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Significant contribution of net exports to economic growth

Net exports, which take into account both changes in exports and imports, contributed 1.5 percentage point to economic growth in 2013.

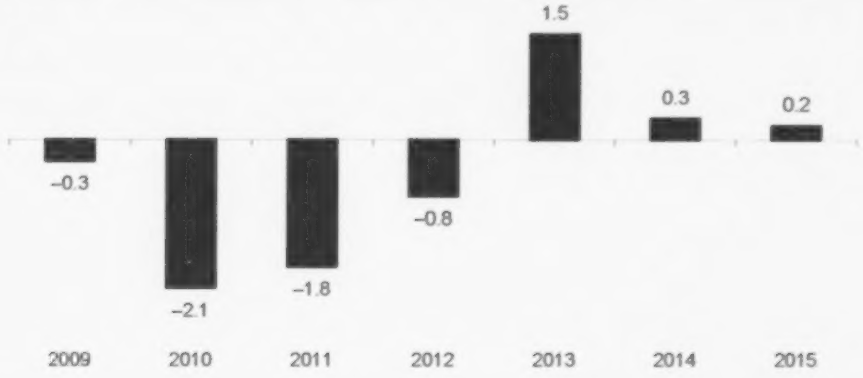
— The positive contribution of the external sector stems from an acceleration in exports combined with a slowdown in imports.

In 2014 and 2015, net exports should continue to make a positive contribution to economic growth, albeit less so than in 2013 due to the anticipated strengthening of imports.

The positive contribution of the external sector is a major change from the situation observed in recent years, when imports grew at a faster pace than exports and caused the external sector to contribute negatively to GDP growth.

CHART C.16

Contribution of net exports to growth in Québec's real GDP
(in percentage points)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

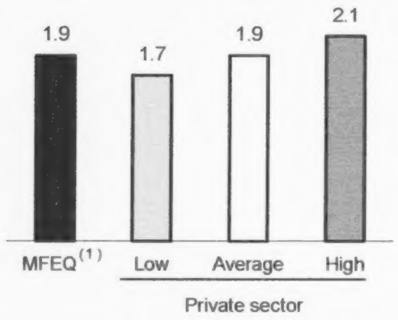
1.8 Comparison with private sector forecasts

The economic growth forecast of the Ministère des Finances et de l'Économie du Québec for 2014 and 2015 falls slightly below the average of private sector forecasts.

- For 2014, the forecast 1.9% growth in real GDP is equivalent to the 1.9% average private sector forecast.
- A growth rate of 1.9% is also anticipated for 2015, which is below the average private sector forecast of 2.1% growth.

CHART C.17

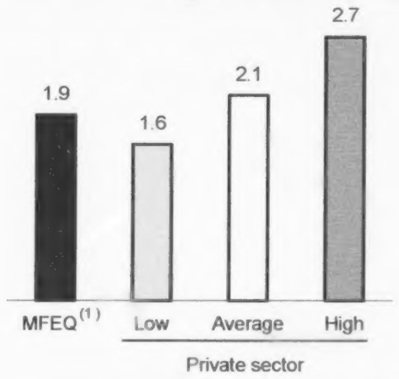
Economic growth in Québec in 2014
(real GDP, percentage change)



(1) Ministère des Finances et de l'Économie du Québec.
Source: Ministère des Finances et de l'Économie du Québec summary as of February 12, 2014, which includes the forecasts of 10 private sector institutions.

CHART C.18

Economic growth in Québec in 2015
(real GDP, percentage change)



(1) Ministère des Finances et de l'Économie du Québec.
Source: Ministère des Finances et de l'Économie du Québec summary as of February 12, 2014, which includes the forecasts of 10 private sector institutions.

TABLE C.4

Québec's economic outlook

(percentage change, unless otherwise indicated)

	2013	2014	2015
Output			
Real gross domestic product	1.2	1.9	1.9
Nominal gross domestic product	2.1	3.5	3.9
Nominal gross domestic product ($ billion)	365.5	378.2	392.9
Components of GDP (in real terms)			
Household consumption	2.0	2.2	2.0
Government spending and investment	0.1	–0.1	0.0
Residential investment	–2.5	–2.2	–1.3
Non-residential business investment	0.7	3.2	3.2
Exports	3.5	3.0	3.2
Imports	0.2	1.9	2.4
Labour market			
Population (thousands)	8 155	8 224	8 282
Population aged 15 and over (thousands)	6 691	6 734	6 774
Jobs (thousands)	4 032	4 077	4 119
Job creation (thousands)	47.8	44.8	42.0
Job creation (%)	1.2	1.1	1.0
Unemployment rate (%)	7.6	7.4	7.2
Employment rate (%)	60.3	60.5	60.8
Other economic indicators (in nominal terms)			
Household consumption	2.9	3.5	3.8
– Excluding food and rent	2.7	3.5	3.8
Housing starts (thousands of units)	37.8	36.4	35.4
Residential investment	–2.8	–0.8	0.8
Wages and salaries	2.6	3.3	3.5
Household income	2.6	3.2	3.5
Net operating surplus of corporations(1)	–6.6	4.5	5.7
Consumer price index	0.7	1.5	2.1
– Excluding tobacco and alcohol	0.7	1.5	2.0
Per capita GDP ($)	44 812	45 989	47 444
Per capita disposable income ($)	26 830	27 436	28 205

(1) According to the new nomenclature used by Statistics Canada, the net operating surplus of corporations includes, in particular, the profits and investment income of businesses.

Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.9 Five-year economic outlook for 2014-2018

The five-year forecast of the Ministère des Finances et de l'Économie du Québec is comparable to that of the private sector regarding real GDP growth, price increases and nominal GDP growth.

— Real GDP is expected to grow at an average rate of 1.8% from 2014 to 2018, compared with the private sector forecast of 1.9%.

— Nominal GDP is expected to grow at an average rate of 3.6% from 2014 to 2018, the same forecast as in the private sector.

TABLE C.5

Economic outlook for Québec – Comparison with the private sector
(percentage change)

	2013	2014	2015	2016	2017	2018	Average 2014-2018
Real GDP							
Ministère des Finances et de l'Économie du Québec	1.2	1.9	1.9	1.8	1.7	1.6	1.8
Average private sector forecast	1.1	1.9	2.1	1.9	1.8	1.7	1.9
Price increase							
Ministère des Finances et de l'Économie du Québec	0.9	1.6	2.0	1.8	1.9	1.8	1.8
Average private sector forecast	1.1	1.5	1.8	1.9	1.9	1.9	1.8
Nominal GDP							
Ministère des Finances et de l'Économie du Québec	2.1	3.5	3.9	3.7	3.6	3.5	3.6
Average private sector forecast	2.2	3.3	3.8	3.8	3.7	3.6	3.6

Note: Since figures are rounded, the average may differ from indicated results.
Source: Ministère des Finances et de l'Économie du Québec summary as of February 12, 2014, which includes the forecasts of 10 private sector institutions.

2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

The Québec economy is open to the world and strongly integrated into the North American economy. While Québec has diversified its trade in recent years, Canada and the United States are still its main trading partners and their situation significantly affects the development of the Québec economy.

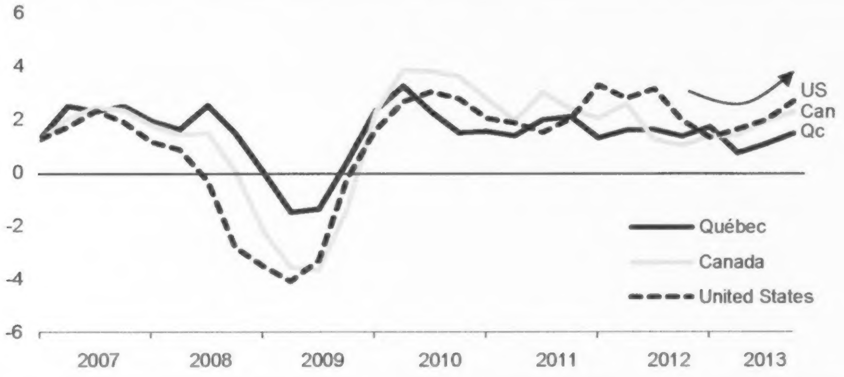
☐ Renewed growth in Canada and the United States

Growth in the main North American economies is currently accelerating.

- In the United States, real GDP, which saw 1.9% growth in 2013, should expand at a faster pace, reaching rates of 2.8% in 2014 and 2.9% in 2015. Real GDP growth will be driven by larger increases in consumption and investment, as well as greater growth in the foreign sector.
- In Canada, the economy saw moderate growth in 2013, at a rate of 1.8%, or 0.1 percentage point more than in 2012. Economic growth in Canada should accelerate to 2.3% in 2014 and 2.5% in 2015.

CHART C.19

Economic growth in Québec, Canada and the United States
(real GDP, quarterly data, annual percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

2.1 The economic situation in Canada

In 2013, economic activity in Canada grew at a moderate pace. Growth in real GDP stood at 1.8%, equivalent to the growth rate in 2012.

— Economic growth in Canada was limited in 2013 by modest changes in consumption and business investment and the slowdown in the residential sector. Furthermore, the international context was less favourable to exports, which grew by only 1.1% in real terms in 2013.

Canada's economic outlook is getting brighter, with real GDP expected to grow by 2.3% in 2014 and 2.5% in 2015.

— Household consumption spending will continue to grow at a moderate pace.

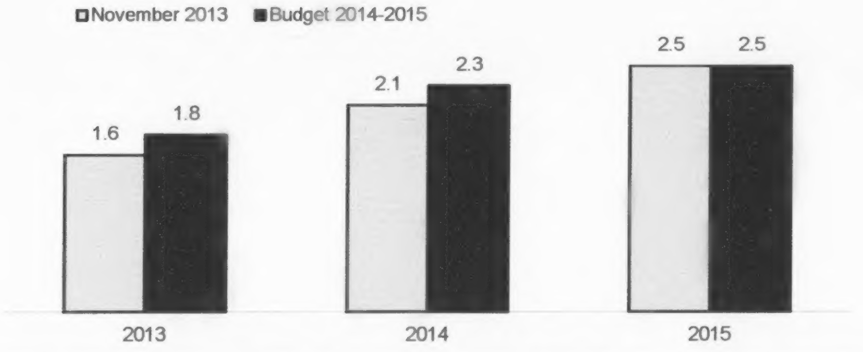
— Improvement in the global economy, in particular the U.S. economy, will further stimulate Canadian exports and business investment.

However, the downturn in the residential sector that began in the second half of 2012 should worsen in 2014. In addition, continued control of government spending in a context where several provinces and the federal government are seeking to restore fiscal balance will limit economic growth.

Canada's nominal GDP also saw moderate growth in 2013. After increasing by 3.4% in 2012, nominal GDP grew by 3.3% in 2013. The rate of growth should accelerate to 3.9% in 2014 and 4.5% in 2015.

CHART C.20

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Household consumption and the labour market

Real consumer spending rose by 2.2% in 2013. A robust labour market will help support consumption, which is expected to increase by 2.5% in 2014 and 2.3% in 2015.

— In 2013, 223 500 jobs were created and 225 000 more should be created in 2014 and 220 400 in 2015, an increase of 1.3% and 1.2%, respectively.

— With ongoing job creation, the unemployment rate will continue to fall, dropping from 7.1% in 2013 to 6.8% in 2014 and 6.7% in 2015.

❑ Residential investment

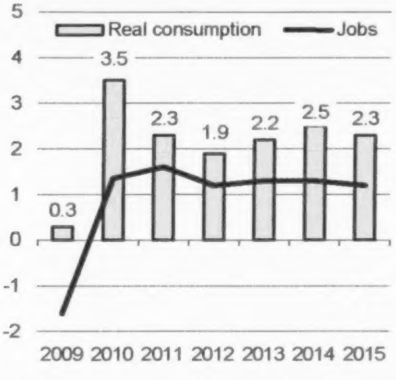
While low interest rates are helping to sustain demand, successive measures introduced by the federal government to tighten mortgage lending rules led to a slowdown in residential construction in Canada.

— After increasing by 10.8% in 2012, housing starts were down 12.5% in 2013 whereas sales of homes levelled off. Housing starts should contract further in 2014 and 2015.

— Following a 6.1% increase in 2012, Canadian residential investment fell by 0.1% in 2013. This trend is expected to continue, with residential investments dropping by 4.2% in 2014 and 1.4% in 2015.

CHART C.21

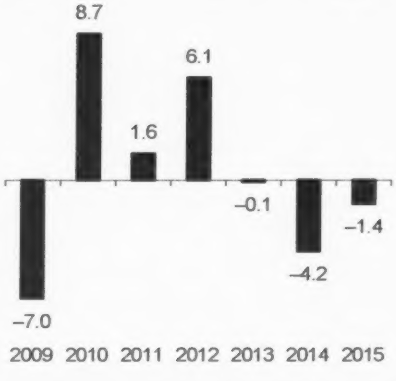
Job creation and consumer spending in Canada
(percentage change)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART C.22

Residential investment in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Non-residential business investment

After slowing to 2.8% in 2013, growth in the value of non-residential business investment will be 5.5% in 2014, tied to the acceleration in domestic demand and a strengthening global economy.

In 2015, non-residential business investment should be up 4.3%, raising its value to $263.8 billion.

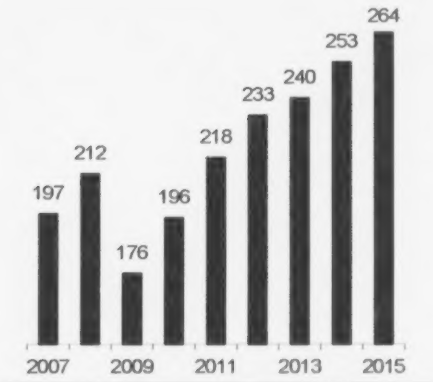
Government investments

Although growth in public investments will be more moderate in the coming years, owing to efforts by the different levels of government to restore fiscal balance, the value of infrastructure investments will remain high.

— After rising by 2.0% in 2013, the value of government investments will increase by 3.8% in 2014. In 2015, it should climb another 3.0%, raising the value of government investments to $84.2 billion.

CHART C.23

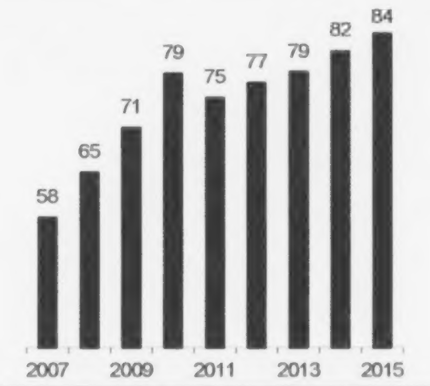
Non-residential business investment in Canada
(billions of dollars, in nominal terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART C.24

Government investments in Canada
(billions of dollars, in nominal terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

☐ External trade

Canadian exports saw modest growth in 2013. Growth will strengthen in 2014 and 2015, in particular owing to the anticipated revival in growth in the United States.

— Indeed, exports increased by only 1.1% in real terms in 2013, especially because the international economic situation was still fragile. Furthermore, imports increased only slightly against the backdrop of moderate growth in domestic demand.

These factors should gradually disappear with the improvement in the global economy and the anticipated acceleration of domestic demand. In addition, the decrease in value of the Canadian dollar will favour Canadian exports on foreign markets.

— Exports should rise by 3.5% in 2014 and 3.9% in 2015, while imports should climb by 1.5% in 2014 and 2.9% in 2015.

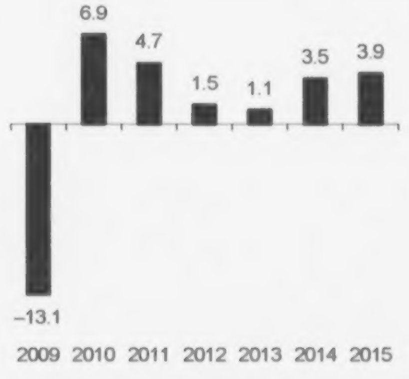
Accordingly, net exports should make a bigger contribution to economic growth in Canada in 2014 and 2015.

— This situation constitutes a significant improvement from recent years when imports experienced more rapid growth than exports.

CHART C.25

Canadian exports

(percentage change, in real terms)

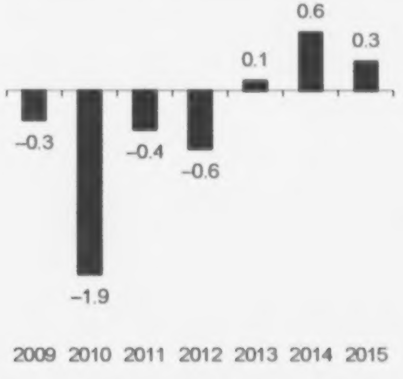


Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART C.26

Contribution of net exports to growth in Canada's real GDP

(in percentage points)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Oil prices

Despite the slowdown in the global economy in 2013, oil prices were supported by demand from emerging economies and geopolitical tensions in the Middle East, which created greater uncertainty over crude oil supplies.

The price of North American oil (WTI) rose by 4.0% in 2013. In the first half of 2013, a net increase in transportation and refining capacity in the United States reduced stocks and helped narrow the positive spread that has existed since 2010 between the prices of a barrel of Brent and WTI oil.

— The spread narrowed from nearly US$18, on average, in the first quarter of 2013, to roughly US$4 in the third quarter, before increasing again toward the end of the year. It should be close to US$10 in 2014.

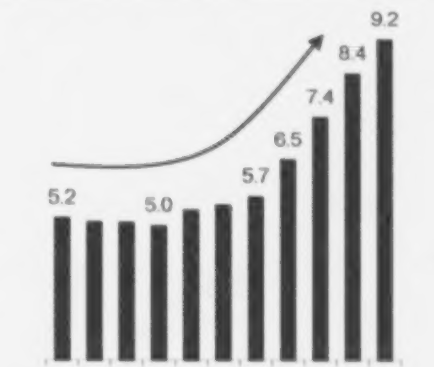
Oil prices should fall in 2014 with the increase in North American oil production, moderate growth in the global economy and a degree of stability in geopolitical tensions in the Middle East.

— According to the U.S. Energy Information Administration, U.S. oil production could increase to 9.2 million barrels a day in 2015, its highest level since 1973.

The average price of Brent oil should be US$104 per barrel in 2014 and US$106 in 2015. The price of WTI oil should be US$93 per barrel this year and US$99 the following year.

CHART C.27

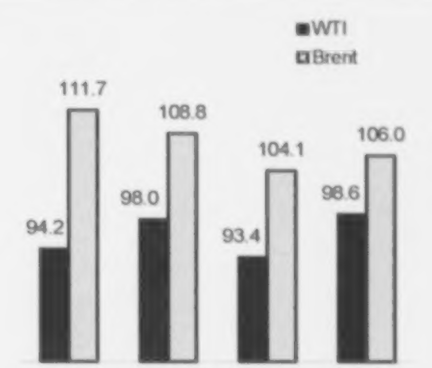
Oil production in the United States
(millions of barrels per day)



Source: U.S. Energy Information Administration.

CHART C.28

Change in oil prices
(US dollars per barrel)



Sources: Bloomberg and Ministère des Finances et de l'Économie du Québec.

❑ The Canadian dollar

After being at parity with the greenback in 2012, the loonie stood on average at 96.6 U.S. cents in 2013. It should stand at 89.6 U.S. cents, on average, in 2014 and 93.3 U.S. cents in 2015.

Between mid-October 2013 and the end of January 2014, the Canadian dollar lost more than seven U.S. cents, falling to 90 U.S. cents for the first time since 2009.

- The decline owes primarily to the Bank of Canada's change of tone last October, when it removed from its statement the bias in favor of raising its key rate.
- The outlook for higher economic growth in the United States than in Canada put downward pressure on the spread between the two countries' short-term interest rates, which also contributed to the depreciation of the Canadian dollar.

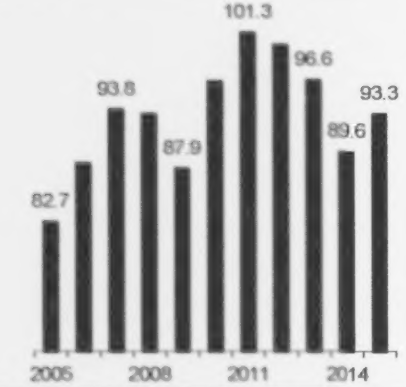
The loonie should continue depreciating until the end of the first quarter of 2014. The greenback, on the other hand, is expected to remain strong against major currencies, with the Federal Reserve slowing the pace of its asset purchases and the faster economic rebound in the United States.

The Canadian dollar should then start appreciating in the second quarter of 2014, but remain well below parity, in anticipation of monetary tightening and strengthening of the Canadian economy.

CHART C.29

Canadian dollar exchange rate

(annual averages, in U.S. cents)

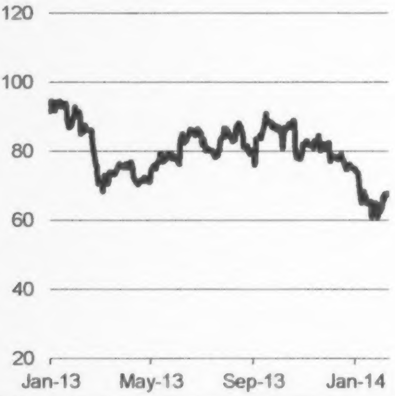


Sources: Bloomberg and Ministère des Finances et de l'Économie du Québec.

CHART C.30

Spread between the yields on Canadian and U.S. two-year bonds

(basis points)



Sources: Statistics Canada, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ Financial conditions remain advantageous

To ensure price stability and stimulate Canada's economic growth, the Bank of Canada (BoC) has kept its benchmark interest rate at 1.0% since September 2010.

Although the economic growth outlook for Canada is getting brighter, persistently low inflation, which has been below the BoC's 2% target since the second quarter of 2012, will continue to influence the Bank in implementing its monetary policy.

— The low rate of inflation is the result of several factors, including continued excess supply, stiff international competition and the lower cost of food and energy. As the effect of these factors diminishes, inflation will get closer to the BoC's target. This will take place gradually between now and 2015.

Given the delay between the moment of a target rate change and its economic impact, the BoC must plan its interventions in advance. Accordingly, the bank is likely to begin gradually tightening its monetary policy as of the first quarter of 2015. Monetary tightening will only be possible if the BoC foresees an increase in inflationary pressure.

— The yield on 3-month Treasury bills will increase in tandem with the target rate.

On the bond market, yields will continue increasing over the coming years, albeit gradually. They will be influenced especially by the brighter economic outlook for Canada and further slowing of the pace of the Federal Reserve's asset purchases.

— Thus, after standing at 2.3%, on average, in 2013, the yield on 10-year federal government bonds should increase to 3.2% in 2014 and 4.0% in 2015.

TABLE C.6

Canadian financial markets
(average annual percentage rate, unless otherwise indicated)

	2012	2013	2014	2015
Target for the overnight rate	1.0	1.0	1.0	1.4
3-month Treasury bills	1.0	1.0	1.0	1.4
10-year bonds	1.9	2.3	3.2	4.0
Canadian dollar (in U.S. cents)	100.1	96.6	89.6	93.3

Sources: Statistics Canada, Bloomberg and Ministère des Finances et de l'Économie du Québec.

2.2 The economic situation in the United States

☐ An acceleration in economic growth

Following a 1.9% expansion in 2013, the U.S. economy is expected to grow by 2.8% in 2014 and 2.9% in 2015.

— The growth will be driven by the U.S. Congress' approval of a two-year spending plan in December 2013. The budget agreement will ease uncertainty and bolster consumer and business confidence.

In the coming years, growth in U.S. real GDP will hinge on a greater contribution from consumption, investments and net exports.

— The heightened confidence and advantageous financial situation of households and businesses will enable consumption and investment to make a greater contribution to economic growth.

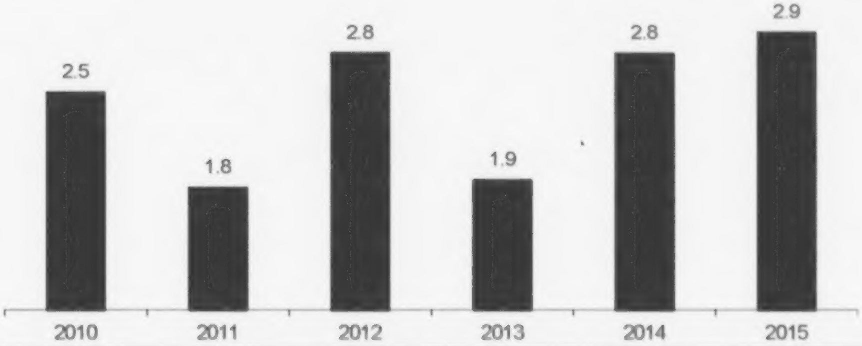
— Dissipation of the adverse effects of the fiscal consolidation measures introduced in early 2013 will also lead to higher growth in consumption.

— The slight improvement in global economic growth, particularly in Europe, will foster demand for U.S. products. In addition, increased production of hydrocarbons in the United States will curb oil imports and increase exports of refined products.

On the other hand, the effects of the 2008-2009 recession, which are still being felt, especially in the labour market, will continue to curtail growth in the U.S. economy.

CHART C.31

Economic growth in the United States
(real GDP, percentage change)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

☐ Acceleration in the U.S. economy in the second half of 2013

The U.S. economy expanded at a faster pace in the second half of 2013, with an annualized growth rate of 4.1% and 3.2% in the third and fourth quarters, respectively.

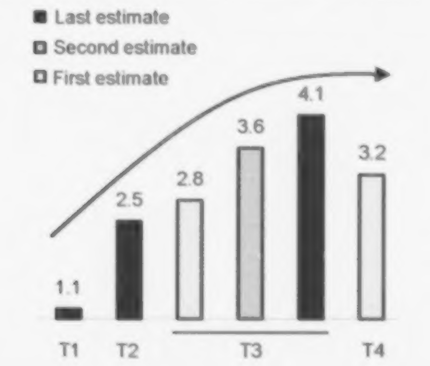
The stronger growth in the second half of 2013 occurred despite the uncertainty surrounding the budget talks in Congress and the partial shutdown of the federal government in October. The growth was driven by:

— stronger domestic demand, due to a more robust private sector, supported by consumption, business investment and restocking;

— the foreign sector's contribution, with export growth outstripping import growth, thereby reducing the U.S. trade deficit.

CHART C.32

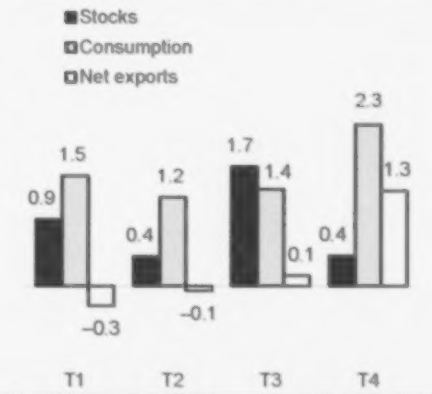
Change and adjustments in economic growth in the United States in 2013
(real GDP, percentage change at an annualized rate)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART C.33

Consumption, stocks and net exports in the United States in 2013
(contribution to real GDP growth, in percentage points)



Source: IHS Global Insight.

☐ Firming up of consumption

After rising by 2.0% in 2013, growth in consumption should stand, in real terms, at 2.5% in 2014 and 2.6% in 2015.

- The impact on household income of the fiscal consolidation measures implemented by the U.S. federal government in early 2013 has worn off. As a result, growth in real personal disposable income should increase from 0.7% in 2013 to 3.4% in 2014 and 3.1% in 2015.

In addition, consumption should benefit from gradual strengthening of the labour market, continued improvement in the financial situation of households and greater household confidence.

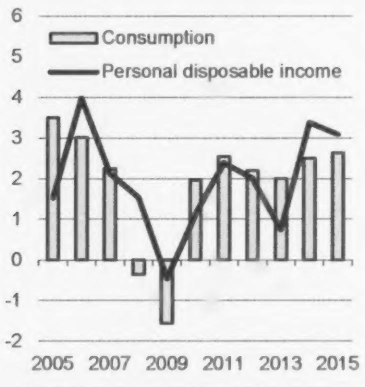
- The ratio of household financial obligations[1] to disposable personal income was 15.4% in 2013, its lowest level since 1981.
- Between November 2013 and January 2014, household confidence rose significantly from 72.0 points to 80.7 points.

However, a number of factors affecting the U.S. economy following the 2008-2009 recession will continue to curtail growth in consumption. In particular, the higher savings rate of households, as they continue their efforts to decrease their debt, and the employment level that remains low.

CHART C.34

Consumption and personal disposable income in the United States

(percentage change, in real terms)

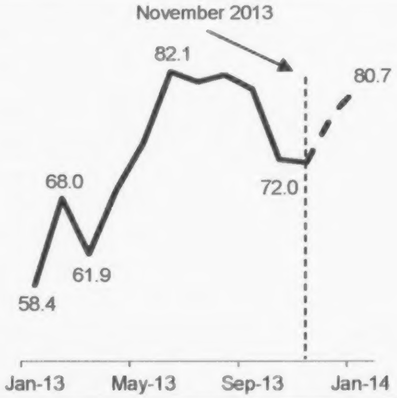


Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART C.35

Change in consumer confidence in the United States

(index, 1985 = 100)



Sources: IHS Global Insight and Conference Board.

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[1] Household financial obligations include mortgage payments, consumer debt, automobile leasing, taxes and property insurance, and the rent paid by renter households.

❑ Gradual increase in employment

Despite the adverse effects of the budgetary consolidation measures on economic growth in 2013, evaluated at 1.7 percentage point, and the fiscal uncertainties that led to the partial shutdown of some U.S. federal government services in October, the rate of job creation in 2013 was similar to that in 2012.

— In 2013, 2.3 million jobs were created, a 1.7% increase, a similar rate to that in 2012.

— The unemployment rate was 7.4% in 2013, a decrease of 0.7 percentage point from the previous year.

— However, the decline in the unemployment rate was accompanied by a drop of 0.4 percentage point in the labour force participation rate[2].

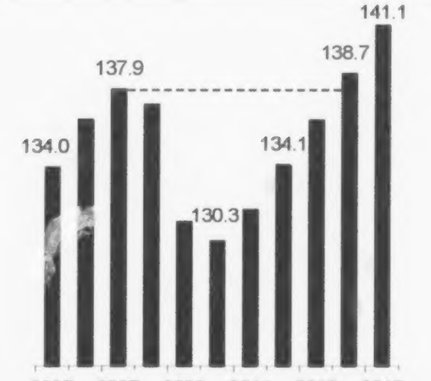
The dissipation of fiscal uncertainty and strengthening of global economic activity should enable U.S. firms to carry out their investment projects sooner, which will have a positive impact on hiring in the coming years.

— Job creation should stand at 1.7% in 2014 and 2015, finally lifting the employment level in 2014 to above its pre-recession peak.

— The unemployment rate should continue to fall, settling at 6.5% in 2014 and 6.2% the following year.

CHART C.36

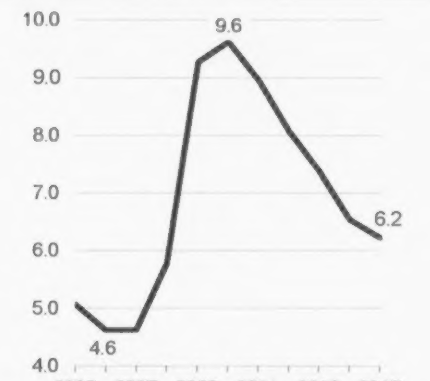
Labour market
(millions of jobs)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART C.37

Unemployment rate
(as a percentage, annual data)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

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[2] Ratio of the labour force (individuals who are employed or looking for work) to the working-age population (aged 16 and over).

Structural factors will continue to curtail economic growth in the United States

In the United States, the 2008-2009 recession and slow recovery thereafter deeply affected the labour market, compounding demographic trends.

Indeed, the huge job losses in 2008 and 2009 were followed by relatively moderate job creation.

- The lack of openings on the job market led to a rise in long-term unemployment (27 weeks or more) from 19.6% of unemployed persons in 2008 to 37.7% in 2013.

As a result of the prolonged difficulties in the labour market, a portion of unemployed persons stopped looking for work, causing a decline in the labour force participation rate among the entire working-age population.

- The labour force participation rate fell from 66.0% in 2008 to 63.7% in 2012. Despite continued job creation and a decline in the unemployment rate in 2013, the labour force participation rate continued to slide to 63.3%, its lowest level since 1978.

According to the latest projections of the Bureau of Labor Statistics, the labour force participation rate should remain low in the coming years, resulting in slower growth of the labour force, from an average annual rate of 0.9% during the 2000s to 0.5% from 2012 to 2022.

- Individuals who have been unemployed for a long time do not have the skills demanded by employers, thereby delaying their reintegration into the labour force and keeping labour force participation rates in the 25-54 age groups low.
- In addition, population aging in the United States will put downward pressure on the overall labour force participation rate in the coming years.
  - Despite a recent increase, the labour force participation rate for people 65 and over remains far below that for the younger age groups. The increasing weight of 65 and over age group will thus drive down the overall labour force participation rate in the coming years.

The anticipated slowdown in growth of the labour force participation rate over the coming years should limit potential U.S. GDP growth.

Labour force participation rate, by age group
(ratio of individuals employed or seeking employment to the number of individuals the same age, as a percentage)

	16-24	25-44	45-54	55-64	65 +	16 +
2008	58.8	83.7	81.9	64.5	16.8	66.0
2013	55.0	81.7	79.7	64.4	18.7	63.3
Spread 2008-2013	**–3.8**	**–2.0**	**–2.2**	**–0.1**	**1.9**	**–2.7**

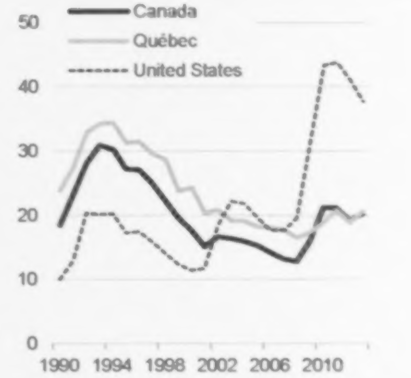
Source: Bureau of Labor Statistics.

The Québec and U.S. labour markets since the recession

Even with the latest recession, the Québec labour market continued the upward trend begun in the early 1980s. This is in contrast to the American situation, where several labour market indicators declined sharply during the latest recession and have not fully recovered yet. Two labour market indicators clearly illustrate this situation. In 2013:

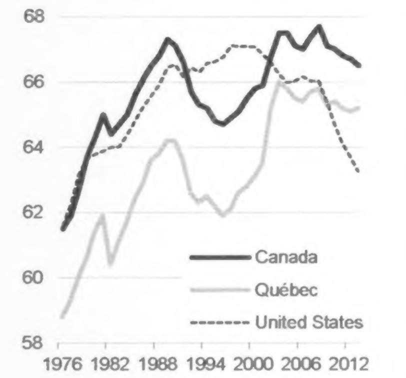
- the share of long-term unemployed in the unemployed population (37.7%) was more than 17 percentage points higher in the United States than in Québec (20.5%) and Canada (20.2%);
- the labour force participation rate in Québec was 65.2%, compared to 63.3% in the United States. The spread between Québec and the Canadian labour force participation rates narrowed to 1.3 percentage point.

Long-term unemployment[1]
(as a percentage)



[1] Percentage of individuals unemployed for 27 weeks or more among the total unemployed.
Sources: Statistics Canada and IHS Global Insight.

Labour force participation rate[1]
(as a percentage)



[1] Percentage of the labour force in the population aged 15 and over for Québec and Canada, aged 16 and over for the United States.
Sources: Statistics Canada and IHS Global Insight.

In addition, unlike in the United States where almost all age groups have been affected by the decline in the labour force participation rate, in Québec, the groups aged 25 and over have seen a general improvement in their labour force participation rate since 2008.

Labour force participation rate, by age group
(labour force on the same-age population, as a percentage)

		15-24	25-44	45-54	55-64	65 +	15 +
Québec	2008	68.0	87.7	85.3	54.1	7.2	65.8
	2013	66.8	88.0	86.2	60.6	9.8	65.2
United States	2008	58.8	83.7	81.9	64.5	16.8	66.0
	2013	55.0	81.7	79.7	64.4	18.7	63.3
Spread 2008-2013	Québec	–1.2	0.3	0.9	6.5	2.6	–0.6
	United States	–3.8	–2.0	–2.2	–0.1	1.9	–2.7

Sources: Statistics Canada and Bureau of Labor Statistics.

☐ More robust growth in business investment

Following a 4.6% annualized rate decrease in the first quarter of 2013, business investment saw moderate growth in the subsequent quarters.

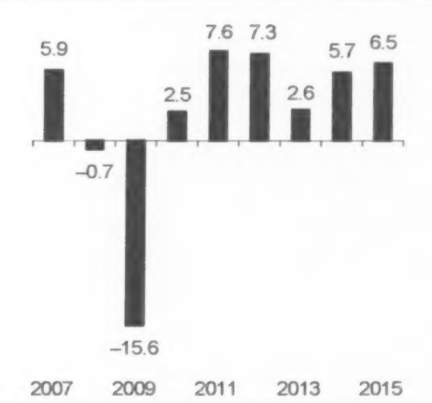
Growth in business investment is expected to accelerate starting in 2014, under the impetus of the following factors:

- the negative impact on economic growth of the budget cuts implemented in early 2013 is gradually waning;
- the announcement last December of the budget agreement reached by Congress for 2014 and 2015 reduced the uncertainty surrounding fiscal policy;
- the acceleration of growth in advanced economies should spur demand for American export products;
- U.S. businesses continue to rely on substantial liquidities resulting from their enhanced profitability following post-recession restructuring, as well as on advantageous production and financing costs.

Consequently, business investment should grow at a faster pace, increasing, in real terms, from 2.6% in 2013 to 5.7% in 2014 and 6.5% in 2015, which will help support job creation.

CHART C.38

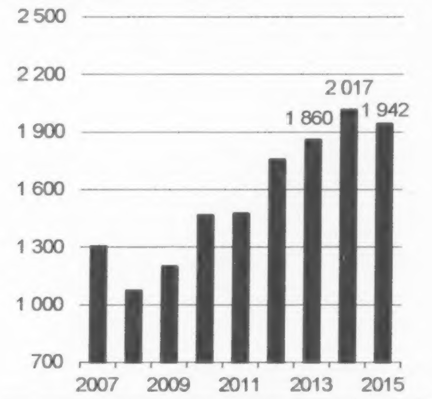
Business investment in the United States
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART C.39

After-tax profits of businesses in the United States
(billions of U.S. dollars, in nominal terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ Continued recovery in the residential sector

The recovery in the residential sector has been well under way since 2011. After growing at a rate of 12.0% in 2013, residential investment is expected to increase by another 12.0% in 2014 and by 16.1% in 2015.

— This sector's contribution to economic growth should therefore increase from 0.3 percentage point in 2013 to 0.4 percentage point in 2014 and 0.6 percentage point in 2015.

Faster growth of residential investment is therefore expected despite the projected gradual hike in mortgage rates, as the latter will still remain at historically low levels. Growth in the residential sector will continue to be fuelled by:

— relatively low stocks of homes for sale;

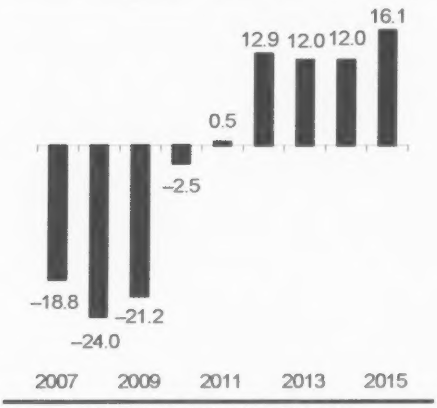
— acceleration in the pace of household formation, from 0.3 million in 2010 to 1.4 million in 2013. The household formation rate should be nearly 1.5 million in 2014 and 2015, owing to better economic conditions, including in the labour market.

Housing starts should thus continue to show progress, reaching 1.2 million units in 2014 and 1.5 million units in 2015.

— They will near their long-term trend of around 1.5 million units per year, but remain well below the peak of 2.1 million units seen before the real estate bubble burst.

CHART C.40

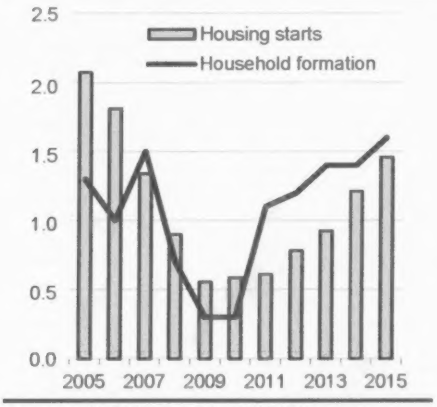
Residential investment in the United States
(annual percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART C.41

Housing starts and household formation in the United States
(millions)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

☐ Reduction in the impact of fiscal consolidation

On the whole, government spending should continue to decline in 2014 and 2015, although at a far more moderate pace than in 2013.

— After contracting, in real terms, by 2.2% in 2013, spending by the various levels of government will contract by 1.3% in 2014 and 0.2% in 2015.

Moreover, in December 2013 Congress approved a two-year budget plan for 2014 and 2015. In addition, on February 13, 2014, it approved lifting of the U.S. debt ceiling until March 2015.

— These agreements reduce the uncertainty surrounding fiscal policy, and the spending plan mitigates the impact of the automatic spending cuts (the "sequester") that began in March 2013.

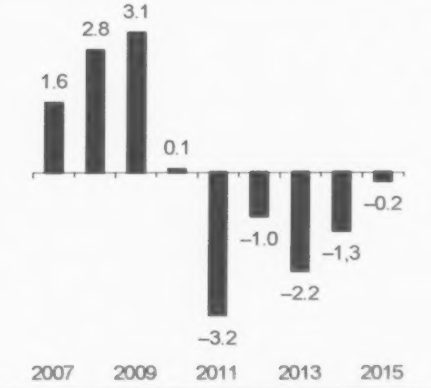
— Federal government spending, in real terms, will thus continue to decrease, although not as much as in 2013.

In addition to the reduced risks associated with fiscal policy and the brighter outlook for the U.S. economy, the U.S. Federal Reserve (Fed) began slowing the pace of its asset purchases in January 2014. However, the Fed was adamant about making the distinction between two monetary policy tools: asset purchases and the target rate.

— Despite the anticipated strengthening of the economy and labour market improvements, the target rate will likely remain at current levels, at least until the middle of 2015.

CHART C.42

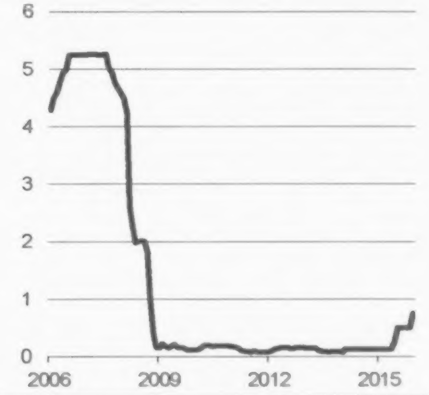
Government spending in the United States
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART C.43

Target rate in the United States
(federal funds rate, as a percentage)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

Major changes to the U.S. Federal Reserve's (Fed) monetary policy

The pace of asset purchases has started to slow

On December 18, 2013, the Fed finally announced it would modestly reduce the pace of its asset purchases. The latter were trimmed from US$85 billion a month to $75 billion in January 2014 and $65 billion in February.

- U.S. bond yields rose sharply between May and December 2013 in anticipation of the slower pace of asset purchases and then fell.
- If U.S. labour market conditions continue to improve and inflation rises and nears the long-term target of 2%, the Fed should continue gradually reducing the pace of its asset purchases throughout the year. In this case, it could terminate its purchase program in late 2014.

A policy change that includes risks

The Fed's decision to trim asset purchases is unprecedented and includes risks. It could influence capital flows in the global economy.

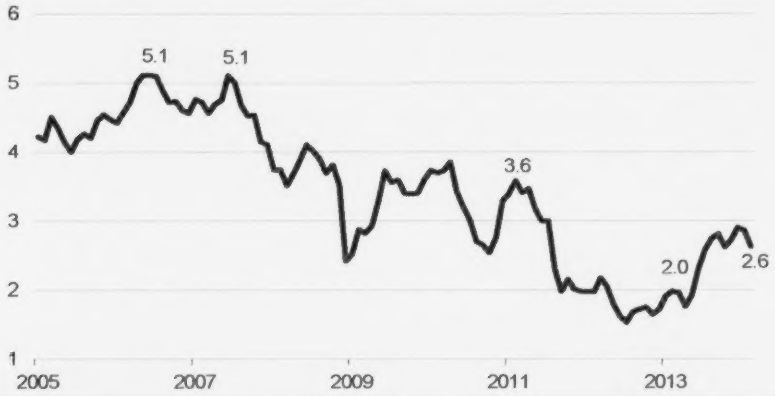
Consequently, it may be difficult for the Fed to estimate the direct and indirect effects of its actions on the U.S. economy, as well as the impact of this policy change on financial markets.

An effective and flexible communication strategy is vital

Markets could see the trimming of asset purchases as the beginning of monetary tightening, despite the fact that short-term interest rates will likely remain low for a long time.

To counter the potentially negative effects of this policy change, the Fed must communicate its intentions in an effective manner, including through clear and credible forward guidance, and adjust its decisions and communications according to changes in the economic situation.

Yield on 10-year U.S. bonds
(as a percentage)



Source: IHS Global Insight.

☐ The trade balance will benefit from favourable conditions

The improvement in the global economy, particularly in the euro area and Asia, strengthened U.S. exports in the second half of 2013. This trend should continue in 2014 and 2015.

— After growing by 2.8% in 2013, exports are expected to increase by 5.8% in 2014 and 5.1% in 2015.

At the same time, appreciation of the U.S. dollar and strengthening of domestic demand, resulting from more vigorous job creation and growth in business investment, will support growth in imports.

— After increasing by 1.4% in 2013, imports should rise by 3.3% in 2014 and 4.3% in 2015.

The faster growth in exports will lead to a reduction in the U.S. trade deficit. This trend will be spurred by increased competitiveness in the manufacturing sector and a sharp increase in crude oil production in the United States.

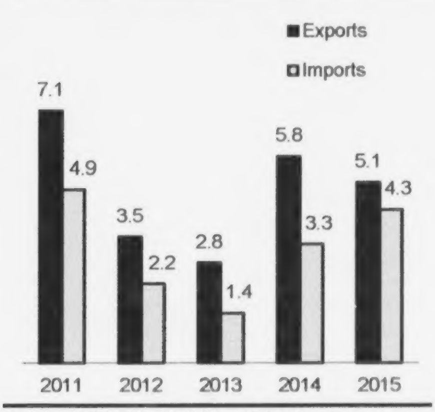
— Unit labour costs in the U.S. manufacturing sector fell by 2.8% between 2006 and 2012, whereas they increased, in local currency, in a number of other advanced economies.

— Oil production in the United States is expected to increase by nearly 40% between 2012 and 2015, thereby making it possible to limit crude oil imports and increase exports of refined petroleum products.

CHART C.44

Change in exports and imports in the United States

(percentage change, in real terms)

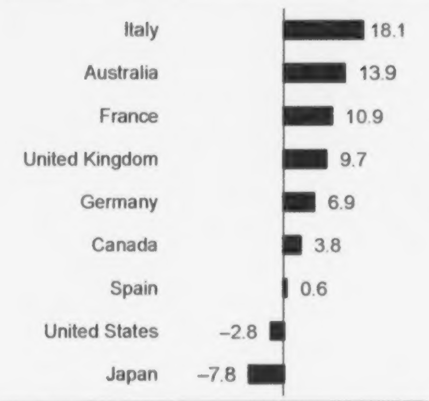


Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART C.45

Change in unit labour costs in the manufacturing sector between 2006 and 2012[1]

(percentage change)



(1) Data in local currencies.
Sources: Conference Board and Ministère des Finances et de l'Économie du Québec.

3. THE GLOBAL ECONOMIC ENVIRONMENT

After slowing to 3.0% in 2013, global economic growth should gradually pick up to 3.5% in 2014 and 3.8% in 2015.

— This strengthening follows a long slowdown observed after 2010, reflecting in particular the prolonged recession in the euro area and the slow recovery in several other advanced economies.

Accelerated growth in the global economy in 2014 and 2015 will be attributable primarily to stronger growth in advanced economies, which will benefit from a reduction in the negative effects of austerity measures and easing of the household deleveraging process.

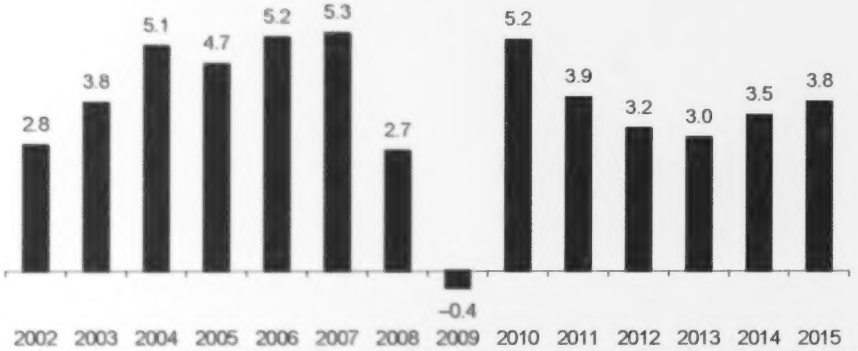
— The global economy will be supported in particular by stronger economic activity in the United States, where the private sector's contribution to domestic demand growth was up in the second half of 2013. This trend should continue in 2014 and 2015.

— However, faster growth in the United States is accompanied by the slower pace of asset purchases by the U.S. Federal Reserve and this should lead to capital outflows in a number of emerging economies.

Growth in emerging economies should increase gradually in 2014 and 2015. However, their expansion will be limited in particular by higher credit costs stemming from the change in the Federal Reserve's monetary policy and lower rates of growth in the Chinese economy than in previous years.

CHART C.46

Global economic growth
(real GDP in purchasing-power parity, percentage change)



Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

❑ Gradual recovery in global trade

Growth in global trade[3] remained weak in 2013, standing at 2.3%. It should firm up gradually in 2014 and 2015 to come in at 4.5% and 5.4%, respectively.

The growth in global trade will be driven by the upturn in trade in advanced economies, whose imports and exports should strengthen in 2014 and 2015.

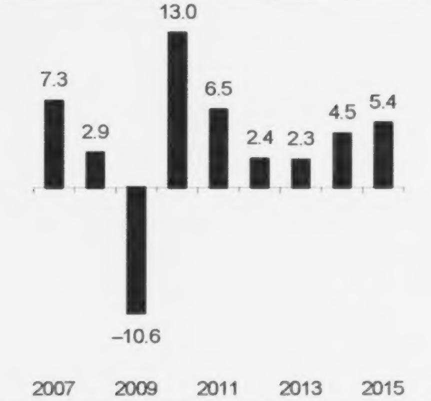
In 2014 and 2015, emerging economies' exports should benefit from increased demand from advanced economies.

— Nevertheless, more moderate growth in the Chinese economy, a major trading hub, may curtail growth in trade between emerging economies.

CHART C.47

Global trade in goods and services

(percentage change, in real terms)

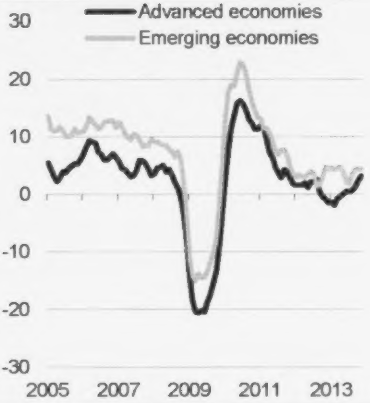


Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART C.48

Exports of advanced and emerging economies

(annual percentage change, in real terms)



Note: Three-month average of the year-on-year percentage change.

Source: CPB Netherlands Bureau for Economic Policy Analysis.

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[3] Annual growth in global trade corresponds to the average growth in imports and exports.

3.2 Stronger growth in advanced economies

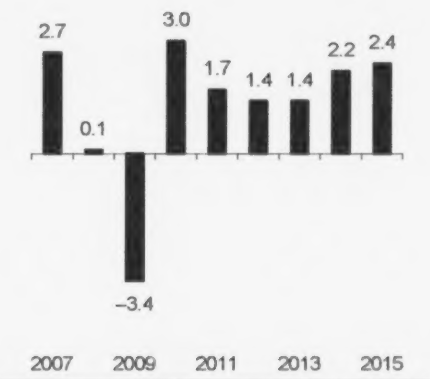
After seeing 1.4% growth in 2012 and 2013, advanced economies are expected to expand by 2.2% in 2014 and 2.4% in 2015. Following several years of adjustment in the wake of the 2008-2009 recession, advanced economies should see stronger growth owing to:

- maintenance of highly accommodative monetary conditions;
- easing of the negative effects of fiscal austerity measures and of deleveraging in the private sector, which will further support their domestic demand;
- an increase in their trade, driven by a revival of their domestic demand and increased competitiveness:
  - in the United States, firms will become more competitive thanks to more advantageous production costs as a result, in particular, of increased oil and gas production, which reduces energy costs. In Japan, heightened competitiveness stems from depreciation of the yen relative to several currencies.

Nonetheless, expansion of advanced economies will continue to be curbed by the situation on the labour market, which has been deeply affected by the economic difficulties in recent years. In the United States and the euro area, the labour force is expected to expand less than in the 2000s.

CHART C.49

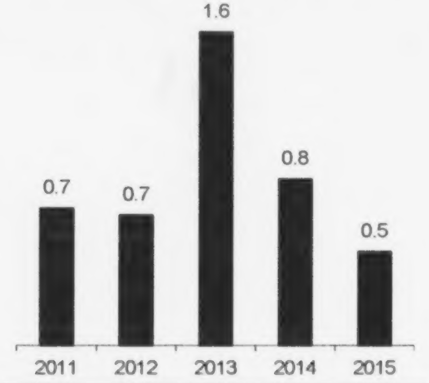
Growth in advanced economies
(real GDP, annual percentage change)



Sources: International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

CHART C.50

Structural deficit reduction effort in G7 economies
(in percentage points of potential GDP)



Source: International Monetary Fund.

Trade implications of U.S. oil production

Acceleration of the U.S. economy in 2014 and 2015 should positively affect the global economy owing to stronger U.S. imports, among other things. This positive effect will differ from previous recovery cycles in the United States, however, in particular due to decreased U.S. dependence on foreign oil.

In recent years, the United States has been able to increase its oil production significantly through the use of rock fracturing techniques.

- U.S. oil production has increased by 31.7%, from 5.7 million barrels a day in 2011 to 7.4 million a day in 2013.

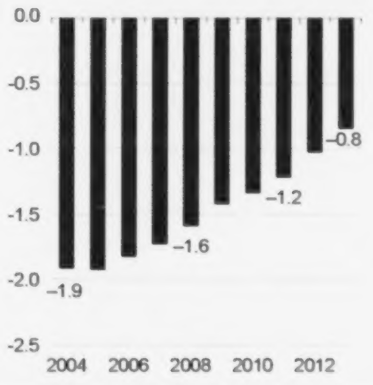
This change has benefited the U.S. economy.

- Increased oil production in the United States has enabled the country to trim its oil trade deficit from 1.2% of GDP in 2011 to 0.8% of GDP in 2013.

U.S. oil production is expected to continue growing in the coming years, which will have implications for global trade.

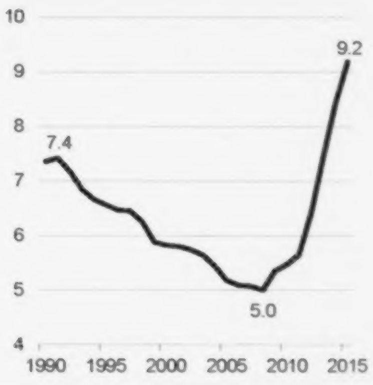
- According to the U.S. Energy Information Administration, the crude oil production should rise from 8.4 million barrels a day in 2014 to 9.2 million barrels a days in 2015.
- Consequently, U.S. imports of oil should drop from 6.9 million barrels a day in 2014 to 6.1 million barrels a day in 2015.

U.S. trade balance on petroleum products
(as a percentage of GDP)



Sources: IHS Global Insight, U.S. Census Bureau and Ministère des Finances et de l'Économie du Québec.

U.S. production of crude oil
(millions of barrels per day)



Source: U.S. Energy Information Administration.

3.3 Moderate growth in emerging economies

From 4.6% growth in 2013, emerging economies should expand by 4.9% in 2014 and 5.3% in 2015. Despite the improvement over 2013, emerging economies will see lower growth rates than those prior to the 2008-2009 global recession.

The expansion of emerging economies in 2014 will be dampened for a number of reasons.

— Access to credit and investment will be curtailed by lower availability of capital.

— Economies focused on the export of commodities will see limited growth in 2014 due to continuing moderate demand for these products.

— The monetary tightening adopted in several emerging economies, including Brazil and Turkey, to limit inflationary pressures and capital outflows will curb these economies' growth.

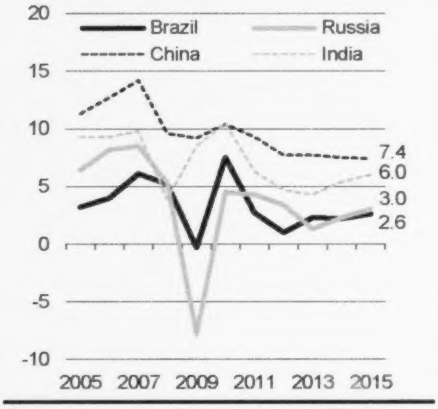
The effect of these factors should ease in several emerging economies in 2015, putting them on the path to more sustained growth.

— A number of these countries will benefit from the adoption of reforms to, among things, develop infrastructure and create a sound business climate for investment.

In China, economic growth should remain near 7.5% in 2014 and 2015 with the authorities' priority of gradually transitioning the economy toward a growth model based on greater contribution from consumption and the private sector.

CHART C.51

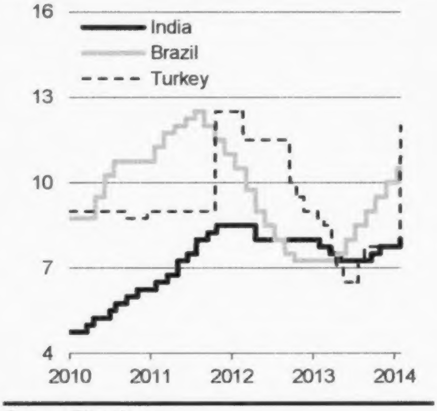
Growth in emerging economies
(annual percentage change)



Sources: International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

CHART C.52

Monetary policy
(key interest rates, in per cent)



Source: Bloomberg.

☐ Greater interdependence of emerging economies

The development of trade between emerging economies has rendered them more interdependent than in the early 2000s. China in particular, the world's second-largest economy after the United States, has become a trading hub for emerging economies.

- Imports of commodities and manufacturing inputs required for China's urbanization and industries have stimulated trade with other emerging economies.

- Between 2002 and 2012, the weight of exports to China rose from 4.9% to 11.5% in Indonesia exports, from 4.2% to 17.0% in Brazil, and from 1.5% to 11.9% in South Africa.

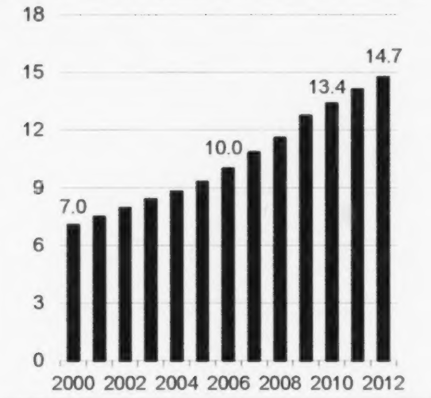
The anticipated moderation in China's economic growth in the coming years is expected to curb growth in the emerging economies, particularly those whose exports rely on natural resources.

- Chinese officials hope to increase the contribution of domestic demand, including consumption, to economic growth as a way of diversifying sources of growth and reduce the risks associated with the indebtedness of local governments and State-owned enterprises.

- In the short term, this strategy will mean lower investment growth in heavy industries than in the 2000s.

CHART C.53

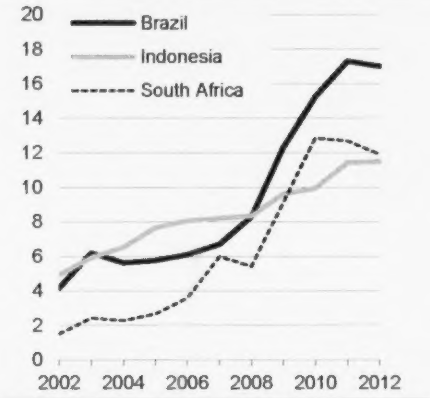
Weight of the Chinese economy in the global economy
(in purchasing-power parity, as a percentage)



Source: International Monetary Fund.

CHART C.54

Trade between China and other emerging economies
(share of exports to China in the economies' total exports)



Source: World Trade Organization.

3.4 Outlook by country

In Canada, growth in real GDP should gradually accelerate from 1.8% in 2013 to 2.3% in 2014 and 2.5% in 2015. The Canadian economy will benefit from more robust global growth, in particular in the U.S., which will spur exports and business investment. On the other hand, the downturn in residential investment and the ongoing control of government spending will continue to weigh on Canada's economic growth.

TABLE C.7

Economic growth outlook in the world – Budget 2014-2015
(real GDP, percentage change)

	Weight[1]	2013	2014	2015
World[1]	**100.0**	**3.0**	**3.5**	**3.8**
– *November 2013*		*2.9*	*3.4*	
Advanced economies[1],[2]	**49.8**	**1.4**	**2.2**	**2.4**
– *November 2013*		*1.2*	*1.9*	
Canada	1.8	1.8	2.3	2.5
– *November 2013*		*1.6*	*2.1*	
United States	19.5	1.9	2.8	2.9
– *November 2013*		*1.6*	*2.4*	
Euro area	13.4	–0.4	0.9	1.4
– *November 2013*		*–0.4*	*0.7*	
United Kingdom	2.8	1.9	2.4	2.4
– *November 2013*		*1.3*	*1.9*	
Japan	5.5	1.8	1.7	1.2
– *November 2013*		*2.0*	*1.7*	
Emerging economies[1],[2]	**45.2**	**4.6**	**4.9**	**5.3**
– *November 2013*		*4.6*	*4.9*	
China	14.7	7.7	7.5	7.4
– *November 2013*		*7.6*	*7.5*	
India	5.7	4.3	5.4	6.0
– *November 2013*		*4.0*	*5.2*	

(1) In purchasing-power parity (2012).
(2) The total weight of advanced and emerging economies does not equal 100 because this table does not include the statistics for developing economies.
Sources: IHS Global Insight, International Monetary Fund, Datastream, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

In the United States, economic growth should gradually strengthen from 1.9% in 2013 to 2.8% in 2014 and 2.9% in 2015. As the adverse effects of fiscal consolidation measures dissipate, domestic demand should get more robust. In addition, the external sector should improve in the wake of increased global demand for U.S. exports and the decline in oil imports against the backdrop of significantly higher U.S. oil production.

In the euro area, the economy is expected to grow by 0.9% in 2014 and 1.4% in 2015, after contracting by 0.4% in 2013. The region as a whole should benefit from increased consumer spending, business investment and gradual strengthening of foreign demand. However, a number of factors will continue to weigh on economic activity, such as high unemployment and household debt, in particular in some struggling member countries.

The United Kingdom should see stronger economic growth, with the rate rising from 1.9% in 2013 to 2.4% in 2014 and 2015. Economic activity will benefit in particular from a real estate market expansion thanks to government home ownership assistance programs and by the easing of credit conditions. Stronger demand, especially from the United States and the euro area, will boost U.K. exports in 2014 and 2015.

In Japan, real GDP is expected to grow by 1.7% in 2014 and 1.2% in 2015, after increasing by 2.8% in 2013. However, the rate of growth will decrease during 2014 and 2015 under the weight of two successive consumer tax increases that are to take effect on April 1, 2014 and October 1, 2015. However, the Bank of Japan's quantitative easing measures, the government's economic stimulus plan and improvement in the country's external balance stemming from a weaker yen and an acceleration of world trade will support economic activity.

China should see real GDP growth of 7.5% in 2014 and 7.4% in 2015. For 2014, that is the growth rate targeted by the Chinese government, which is seeking stability as it transitions towards a domestic-demand-based economy. In addition, the rise in value of the Yuan as well as wage increases are making China less competitive on world stage and thereby curtailing growth in its exports.

India should see its economy expand by 5.4% in 2014 and 6.0% in 2015. The Indian economy should benefit in particular from growth in its exports as a result of depreciation of its currency against the backdrop of stronger growth in the global economy. Nevertheless, economic growth in 2014 and 2015 should be limited by the higher cost of credit and the government's deficit-cutting efforts.

Distinctions between advanced, emerging and developing economies

The global economic forecast of the Ministère des Finances et de l'Économie du Québec (MFEQ) covers different groups of economies: advanced, emerging and developing.

- The group of advanced economies includes, in particular, the United States, the euro area economies, Japan, the United Kingdom, Canada and some other Asian economies, such as South Korea.
- The group of emerging economies includes, notably, China, India, Russia, Brazil, Mexico, Indonesia, Turkey, Poland, and Argentina.
- The developing economies group includes countries such as Iran, Algeria, Belarus, and Iraq.

In 2012, the advanced economies accounted for 49.8% of the global economy, the emerging economies, 45.2% and developing economies, 5.0%.

The MFEQ distinguishes between advanced, emerging and developing economies using the same criteria as the International Monetary Fund, i.e. per capita income level, export diversification and the degree of integration into the global financial system.

Weight of the main advanced, emerging, and developing economies in the global economy
(as a percentage, in purchasing-power parity of 2012)

Economies	Weight(1)
Advanced	**49.8**
United States	19.5
Japan	5.5
Germany	3.8
United Kingdom	2.8
France	2.7
Others	15.6
Emerging	**45.2**
China	14.7
India	5.7
Russia	3.0
Brazil	2.8
Mexico	2.2
Others	16.9
Developing	**5.0**
TOTAL	**100.0**

(1) The figures have been rounded off, so they may not add up to the total indicated.
Sources: International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

4. MAIN RISKS RELATED TO THE ECONOMIC FORECAST SCENARIO

This forecast scenario hinges on several hypotheses, several of which are subject to risks. A number of the risks, both external and internal, might affect the financial scenario and the anticipated changes in the Québec economy, which is an open economy.

☐ Persistently low inflation in advanced economies

Inflation remains low in advanced economies and currently stands below the target set by several central banks, including in the euro area, Canada and the United States.

— Stronger growth in advanced economies has created the conditions needed for inflation to return closer to its historical values.

— However, if disinflationary pressures last longer than expected in some of these economies, it would affect their monetary policy and changes in their nominal GDP.

Price changes are of particular concern in the case of economies weakened by the sovereign debt crisis in the euro area, including Spain, Greece and Portugal, where inflation is near zero, if not negative.

— The severe recession that hit these countries resulted in huge surplus production capacities, higher unemployment rates and a long deleveraging process, all of which push prices down.

— Lower price levels could lead consumers and investors to delay purchases, which would adversely affect the economy and put further downward pressure on prices.

As we saw in the case of Japan, if this were to happen in certain countries, the central banks might have trouble offsetting the situation, possibly resulting in a long period of weak economic growth.

Furthermore, all advanced economies face the risk of persistently low inflation and a more gradual return to values that are close to historical levels.

☐ Financial turbulence in the emerging economies could slow global economic growth

A number of emerging economies have benefited in recent years from abundant liquidities stemming from large current account surpluses and foreign capital inflow. On the other hand, this abundance in liquidities has left these economies vulnerable to capital outflow.

Meeting the growth targets set by government officials could be harder for China owing to certain issues relating to its banking system.

- Local government debt rose to 33.0% of GDP in 2013 due to the easing of bank credit in recent years.
- Access to home ownership declined in the wake of a sharp price increase and the incurring of debt in order to purchase properties.

In addition, several emerging economies benefited from a significant inflow of capital in search of yields. Indeed, the implementation of very expansionary monetary policies by central banks in advanced economies led to low bond yields in these countries.

With the revived growth in advanced economies and higher bond yields in the last few quarters, these economies are seeing a substantial inflow of capital, rendering some emerging economies vulnerable.

- Their large current account deficits, depreciation in their currency and high inflation are making Brazil and India more vulnerable.
- Thailand, Indonesia and Turkey experienced a resurgence of financial tensions in early 2014.
- In January 2014, Argentina's national currency suffered a strong devaluation against the U.S. dollar. Measures are being developed to slow the capital outflow and the reduction in exchange reserves.

If China's banking sector were to weaken or the reallocation of capital were sudden, we could see turbulence on financial markets and, consequently, a significant slowdown in global growth owing to the commercial and financial links between emerging and advanced economies.

❑ Stronger growth in the United States and simultaneous dissipation of several limiting factors

Serious deleveraging by households as well as the local, State and federal governments has slowed U.S. economic growth in recent years.

— These factors eased in the second half of 2013 and the trend should continue.

— At the same time, the U.S. economy benefited from expansion of the U.S. real estate sector, acceleration of gas and oil production and substantial gains in competitiveness.

This combination of factors should boost confidence and lead to an acceleration in consumer and business spending, which could in turn result in stronger-than-expected growth in the U.S. economy.

5. PRICE CHANGES FOR MAIN METALS PRODUCED IN QUÉBEC

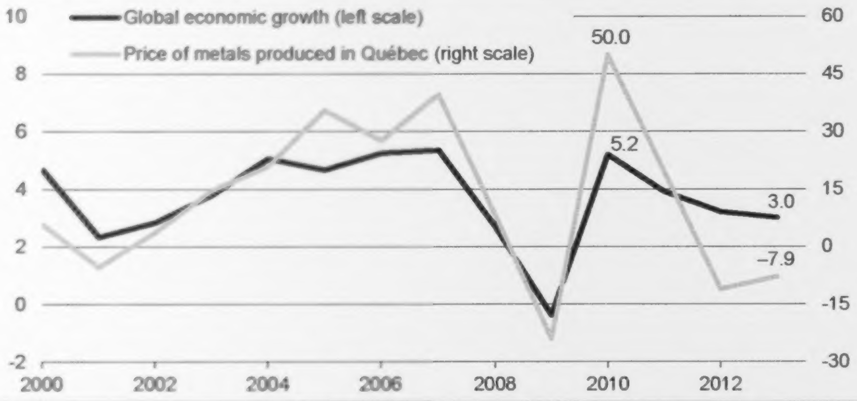
The prices of main metals produced in Québec, in particular iron, gold, nickel and zinc, are determined on international markets. The mining industry is thus subject to world economic cycles.

Global economic activity and metal prices follow similar trends. After rising sharply from 2009 to 2011, prices for metals produced in Québec fell by 11.1% in 2012 and 7.9% in 2013 owing to the slowdown in the global economy.

- The emerging economies, in particular, have experienced slower growth since 2011 after driving demand for commodities for several years.
- The slowdown, combined with the consequences of the economic recession in Europe, had a moderating effect on global demand for metals. Since metals are priced in U.S. dollars, appreciation in the greenback also contributed to a decrease in metal prices in the last two years.

CHART C.55

Global economic growth and change in the price of metals produced in Québec[1]
(real GDP, Québec metal price index, percentage change)



(1) The Québec metal price index includes the six metals with the highest production value in Québec: iron ore, gold, nickel, zinc, copper and silver.
Sources: International Monetary Fund, Bloomberg, Natural Resources Canada and Ministère des Finances et de l'Économie du Québec.

❑ Lower prices for metals produced in Québec in 2013

The Québec metal price index[4] (QMPI) fell by 30%, from a high of 283 points in August 2011 to 200 points in January 2014.

Under the baseline scenario, the QMPI should continue trending downward in the coming years, dropping by 12.8% in 2014 and 0.6% in 2015, relative to the previous year.

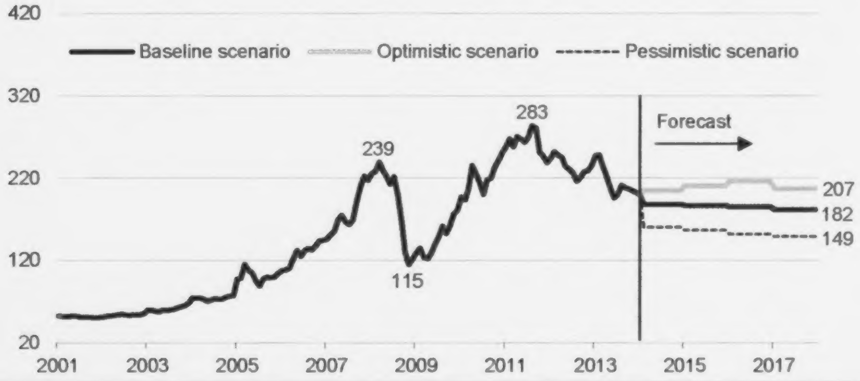
- Under the optimistic scenario, the QMPI should contract by 4.9% in 2014 and then increase by 2.7% in 2015.
- Under the pessimistic scenario, it should fall by 25.6% in 2014 and 2.5% in 2015.

Despite the forecast decline under the baseline scenario, metal prices are expected to remain relatively high in the coming years relative to the levels seen between 2000 and 2007.

- Although it will be more moderate, growth in the emerging economies will continue to support global demand for metals.

CHART C.56

Change in the Québec metal price index
(U.S. dollars, 2005 = 100)



Sources: Bloomberg, Natural Resources Canada and Ministère des Finances et de l'Économie du Québec.

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[4] The weights of the six principal metals extracted in Québec used to calculate the index are: iron ore (49.5%), gold (28.4%), nickel (9.1%), zinc (7.4%), copper (3.6%) and silver (2.0%).

❑ An increased supply of iron ore could depress prices in the medium term

After major fluctuations in the second half of 2012 and the first half of 2013, the price of iron ore recently stabilized.

— The average price of iron ore in the second half of 2013 hovered between US$130 and US$137 a tonne, after falling to a short-term low of US$104 in September 2012 and peaking at US$156 in February 2013.

— Sustained demand from emerging economies, in particular as a result of the Chinese government's major investment plan, stabilized prices in the second half of 2013.

In the coming years, investments in transportation infrastructure and the construction of gas pipelines and new refineries in China will spur demand for iron ore.

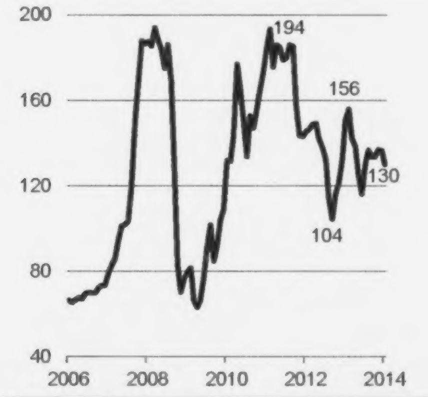
However, iron ore production continues to swell and a significant increase in supply could push the price of iron ore down in late 2014.

— A number of new mines in Australia are slated to begin production over the coming quarters, while India, a major producer, could partially lift certain bans on the export of iron ore.

Thus, the price of iron ore should fall in the medium term, but remain above US$100 a tonne.

CHART C.57

Price of iron ore
(spot market price, in U.S. dollars per tonne, monthly data)

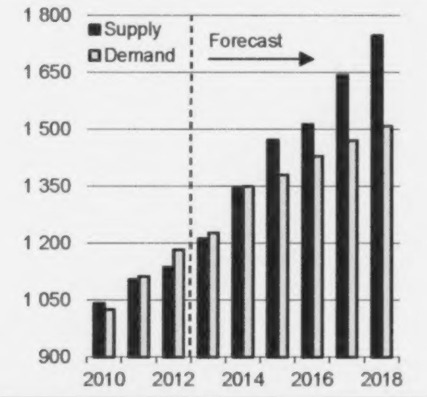


Source: Bloomberg.

CHART C.58

Supply and demand for iron ore(1)

(millions of tonnes)



(1) On the market, marine transport.
Source: Morgan Stanley.

❑ Gold price stabilizes after recent losses

The price of gold dropped in 2013, primarily as a result of decreased demand for this precious metal as a safe haven. The average price for the yellow metal in 2013 was US$1 409 an ounce, 15.6% less than the previous year. The average price in January 2014 was US$1 245.

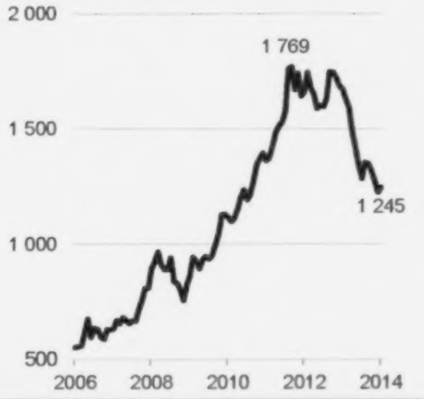
- The anticipations that led to the U.S. Federal Reserve's decision to slow the pace of its asset purchases made gold less attractive as a hedge against inflation.
- As a result, demand declined by 21% on an annual basis in the third quarter of 2013, primarily due to lower investor interest in gold.
- Since gold is priced in U.S. dollars, the appreciation of the greenback also lowered the price of the yellow metal.
- In the coming years, the easing of world financial tensions and the gradual withdrawal of exceptional monetary policies will make gold less attractive as a haven.

Furthermore, in 2014 demand for gold from India could be curtailed by import restrictions imposed by the Government of India in an attempt to reduce its current account deficit, which is at an all-time high.

In the medium term, the price of gold should be around US$1 250 before increasing slightly.

CHART C.59

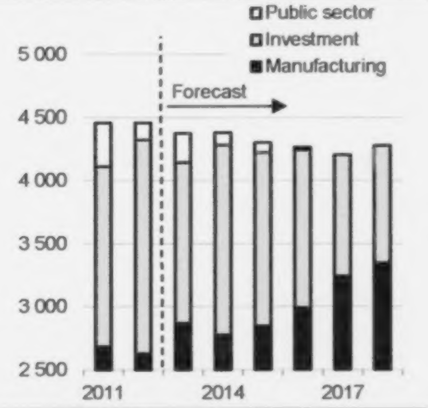
Price of gold
(U.S. dollars an ounce, monthly data)



Source: Bloomberg.

CHART C.60

Global demand for gold
(tonnes)



Source: Morgan Stanley.

☐ Lower supply could put upward pressure on the price of nickel

Nickel took the biggest price hit in 2013 owing to a new technique for making stainless steel from this industrial metal.

— The average price for nickel in 2013 was US$15 023 a tonne, a 14% drop from the previous year.

In January 2014, the price of nickel was nearly US$14 100 a tonne, which is below over 30% of nickel producers' production costs.

— In the first half of 2013, Chinese nickel production rose by 22% whereas production in the rest of the world fell by 6%.

The price of nickel should gradually recover in the next two years, but remain below US$17 000 a tonne.

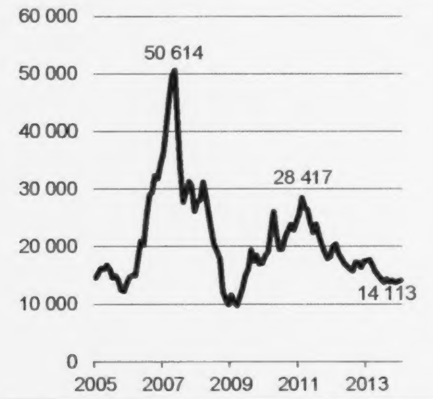
— The currently low price should contribute to a slowdown in new production increasing projects.

Furthermore, the Government of Indonesia's introduction of a ban on raw nickel exports, a controversial measure that took effect in January 2014, could also have a positive impact on nickel prices.

— Although they have built up large nickel inventories, Chinese producers, who import a lot of ore from Indonesia, could be relatively affected by the ban.

CHART C.61

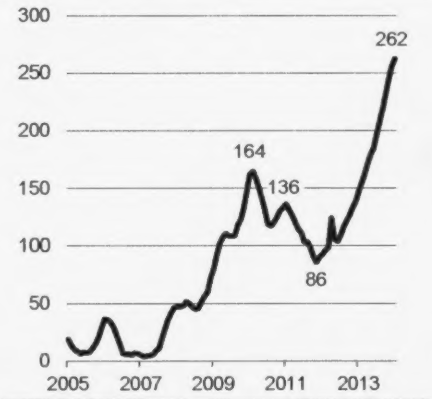
Price of nickel
(U.S. dollars per tonne)



Source: Bloomberg.

CHART C.62

Nickel inventories
(millions of tonnes)



Source: Bloomberg.

Section D

THE GOVERNMENT'S FINANCIAL FRAMEWORK

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INTRODUCTION

This section of the Budget Plan presents the preliminary results for fiscal 2013-2014 and the government's budgetary and financial stance for 2014-2015 and 2015-2016.[1]

The information provided concerns:

- consolidated financial and budgetary transactions for the period from 2013-2014 to 2015-2016;
- the change in budgetary revenue and expenditure, as well as adjustments made since the November 2013 *Update on Québec's Economic and Financial Situation*;
- the change in consolidated revenue and expenditure;
- the results of the consolidated entities, particularly the special funds, non-budget-funded bodies and the health and social services and education networks;
- the government's capital investments as a whole;
- the government's non-budgetary transactions and net financial requirements.

The five-year financial framework for Budget 2014-2015, i.e. the government's financial forecasts up to 2018-2019, is presented in Section A.

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[1] Throughout this section, the budgetary data for 2013-2014 and subsequent years are forecasts.

1. RETURN TO A BALANCED BUDGET IN 2015-2016

1.1 Change in the budgetary balance

Budget 2014-2015 confirms the return to a balanced budget in 2015-2016 through ongoing responsible management of spending. In this regard, the financial framework for Budget 2014-2015 forecasts:

— a deficit of $2.5 billion in 2013-2014;

— a deficit of $1.75 billion in 2014-2015;

— a balanced budget as of 2015-2016.

In addition, the overall improvement in the budgetary situation since the November 2013 *Update* makes it possible to:

— eliminate, as of 2014-2015, a recurrent amount of $400 million of the shortfall to be offset;

— reintroduce certain contingency reserves.

TABLE D.1

Summary of budgetary transactions from 2013-2014 to 2015-2016
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY REVENUE			
Own-source revenue	53 148	55 085	57 273
Federal transfers	16 669	16 498	17 348
Total	**69 817**	**71 583**	**74 621**
BUDGETARY EXPENDITURE			
Program spending	–63 825	–65 132	–66 442
Debt service	–8 510	–8 601	–8 685
Total	**–72 335**	**–73 733**	**–75 127**
CONSOLIDATED ENTITIES			
Non-budget-funded bodies and special funds[1]	220	472	207
Networks - Health and social services and education	–77	–72	–31
Generations Fund	1 072	1 296	1 642
Total	**1 215**	**1 696**	**1 818**
Contingency reserves	–125	—	–200
Shortfall to be offset	—	—	530
SURPLUS (DEFICIT)	**–1 428**	**–454**	**1 642**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 072	–1 296	–1 642
BUDGETARY BALANCE[2]	**–2 500**	**–1 750**	**—**
As a % of GDP	***–0.7***	***–0.5***	**—**

(1) Includes consolidation adjustments.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

☐ Contingency reserves

The government is reintroducing certain contingency reserves into the financial framework.

- — The contingency reserve stands at $125 million in 2013-2014 and may to be used, in particular, to finance the cost of the Lac-Mégantic tragedy;
- — In 2015-2016, the reserve included in the financial framework will amount to $200 million.

TABLE D.2

Contingency reserves
(millions of dollars)

	2013-2014	2014-2015	2015-2016
November 2013 *Update*	—	—	200
Adjustments	125	—	—
BUDGET 2014-2015	**125**	**—**	**200**

1.2 Adjustments to the financial framework

Overall, the government's budgetary situation has improved since the *Update* of last November. The adjustments as a whole make it possible to:

- confirm the deficits for 2013-2014 and 2014-2015;
- eliminate, as of 2014-2015, a recurrent amount of $400 million of the shortfall to be offset;
- raise health funding by $430 million in 2014-2015.

The details of the adjustments to the financial framework are presented in Section A of the Budget Plan.

TABLE D.3

Adjustments since the November 2013 *Update*
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY BALANCE – NOVEMBER 2013	**–2 500**	**–1 750**	**—**
Shortfall to be offset – November 2013	—	–400	–1 000
Adjustments related to the economy			
Own-source revenue	–39	–112	–212
Federal transfers	50	613	532
Subtotal	**11**	**501**	**320**
Quality and efficiency of public services			
Efforts of public bodies	—	150	—
Patient-based funding in health	—	–15	–40
Program spending[1]	—	—	—
Subtotal	**—**	**135**	**–40**
Funding for public services			
Funding for health-care institutions	—	–430	—
Fight against tax evasion	—	37	51
Subtotal	**—**	**–393**	**51**
Debt service	73	78	125
Other adjustments[2]	41	79	14
Contingency reserves	–125	—	—
Shortfall to be offset – Budget 2014-2015	—	—	530
BUDGETARY BALANCE – BUDGET 2014-2015	**–2 500**	**–1 750**	**—**

(1) Budget 2014-2015 does not include any new measures or improvements to existing programs that increase the program spending objective.
(2) Excludes the Generations Fund.

❑ Adjustments to the budgetary balance in 2013-2014

For 2013-2014, budgetary revenue will be $11 million more than forecast in November 2013.

Budgetary expenditure is down $73 million, because of a decline in debt service.

Taking into account the results of consolidated entities and the introduction of a contingency reserve, the budgetary deficit is maintained at $2.5 billion.

TABLE D.4

Summary of budgetary transactions in 2013-2014
(millions of dollars)

	November 2013 *Update*		**Budget 2014-2015**
	2013-2014	**Adjustments**	**2013-2014**
Own-source revenue, excluding government enterprises	48 152	–125	48 027
Government enterprises	5 035	86	5 121
Federal transfers	16 619	50	16 669
Total budgetary revenue	**69 806**	**11**	**69 817**
Program spending	–63 825	—	–63 825
Debt service	–8 583	73	–8 510
Total budgetary expenditure	**–72 408**	**73**	**–72 335**
Consolidated entities	**1 171**	**44**	**1 215**
Contingency reserves	—	–125	–125
SURPLUS (DEFICIT)	**–1 431**	**3**	**–1 428**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 069	–3	–1 072
BUDGETARY BALANCE[1]	**–2 500**	—	**–2 500**
As a % of GDP	*–0.7*		*–0.7*

[1] Budgetary balance within the meaning of the *Balanced Budget Act*.

2. BUDGETARY REVENUE AND EXPENDITURE

This chapter presents the update to budgetary revenue and expenditure for 2013-2014 to 2015-2016, as well as the main adjustments made since the November 2013 *Update*.

2.1 Adjustments to budgetary revenue

The government's budgetary revenue is expected to total $69.8 billion in 2013-2014, i.e. $53.1 billion in own-source revenue and $16.7 billion in federal transfers.

Budgetary revenue should rise by 3.3% in 2013-2014, 2.5% in 2014-2015 and 4.2% in 2015-2016.

TABLE D.5

General fund
Change in budgetary revenue
(millions of dollars)

	November 2013 *Update*		**Budget 2014-2015**		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Own-source revenue					
Own-source revenue excluding government enterprises	48 152	–125	48 027	50 032	52 274
% change	*3.0*		*2.7*	*4.2*	*4.5*
Government enterprises	5 035	86	5 121	5 053	4 999
% change	*–1.4*		*0.3*	*–1.3*	*–1.1*
Subtotal	**53 187**	**–39**	**53 148**	**55 085**	**57 273**
% change	***2.6***		***2.5***	***3.6***	***4.0***
Federal transfers	16 619	50	16 669	16 498	17 348
% change	*5.8*		*6.1*	*–1.0*	*5.2*
TOTAL	**69 806**	**11**	**69 817**	**71 583**	**74 621**
% change	***3.3***		***3.3***	***2.5***	***4.2***

2.1.1 Own-source revenue excluding government enterprises

The own-source revenue of the general fund, excluding government enterprises, consists chiefly of tax revenue, which is made up of personal income tax, contributions to the Health Services Fund, corporate taxes and consumption taxes. How it changes is closely tied to economic activity and changes to the tax systems.

Own-source revenue excluding government enterprises includes, apart from tax revenue, various revenues of an administrative nature, such as fees and permits, interest and fines.

☐ Downward adjustments in 2013-2014

The forecasts for fiscal 2013-2014 show that own-source revenue excluding government enterprises is adjusted downward by $125 million compared with the forecast in the November 2013 *Update*. This adjustment stems largely from the adjustments observed in corporate taxes and in revenue from consumption taxes, which are partly offset by an improvement in revenue from personal income tax.

For 2013-2014, own-source revenue excluding government enterprises thus amounts to $48.0 billion, an increase of 2.7% compared with the revenue observed for fiscal 2012-2013.

■ Adjustments to own-source revenue by source

Revenue from personal income tax is adjusted upward by $123 million for fiscal 2013-2014 compared with the amount forecast in the November 2013 *Update*. This adjustment is mainly attributable to better-than-anticipated monitoring of tax revenues, despite the weak downward adjustment in the growth of salaries and wages in 2013 and 2014.

Contributions to the Health Services Fund are adjusted downward by $15 million, reflecting less robust growth in salaries and wages in 2013 and 2014 compared with the forecast.

Revenue from corporate taxes is adjusted downward by $130 million for fiscal 2013-2014, reflecting the weak adjustment to the net operating surplus of corporations and the monitoring of tax revenues.

Revenue from consumption taxes is adjusted downward by $73 million in 2013-2014. This adjustment stems in particular from weaker growth of consumption, excluding food and rent, in 2014, as well as weaker-than-expected monitoring of tax revenues.

Revenue relating to natural resources is adjusted downward by $5 million in 2013-2014, mainly because of the decline in the value of mining production subject to mining duties, which continues to be affected by the weak prices of metals produced in Québec.

Other revenue is adjusted downward by $25 million, owing in particular to weaker-than-forecast interest income.

TABLE D.6

General fund
Change in own-source revenue excluding government enterprises

(millions of dollars)

	November 2013 *Update*		Budget 2014-2015		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Personal income tax	19 379	123	19 502	20 541	21 754
% change	*3.3*		*4.0*	*5.3*	*5.9*
Health Services Fund	6 681	–15	6 666	6 901	7 144
% change	*1.3*		*1.0*	*3.5*	*3.5*
Corporate taxes	3 773	–130	3 643	3 908	4 177
% change	*–3.7*		*–7.0*	*7.3*	*6.9*
Consumption taxes	16 472	–73	16 399	16 703	17 273
% change	*5.7*		*5.2*	*1.9*	*3.4*
Natural resources	89	–5	84	146	52
% change	*–55.3*		*–57.8*	*73.8*	*–64.4*
Other revenue	1 758	–25	1 733	1 833	1 874
% change	*3.4*		*1.9*	*5.8*	*2.2*
TOTAL	**48 152**	**–125**	**48 027**	**50 032**	**52 274**
% change	***3.0***		***2.7***	***4.2***	***4.5***

❑ Change by revenue source in 2014-2015 and 2015-2016

In 2014-2015 and 2015-2016, own-source revenue excluding government enterprises will rise by 4.2% and 4.5% respectively.

More specifically, personal income tax, the government's largest revenue source, should increase by 5.3% in 2014-2015 and 5.9% in 2015-2016, reaching $20.5 billion and $21.8 billion respectively. This growth is consistent with the change in household income, given the progressive nature of the tax system. Indeed, household income represents most of the revenue base subject to personal income tax and is a good economic indicator for illustrating progression of the yield of this tax. Growth in 2014-2015 and 2015-2016 will also be affected by the following factors:

— the growing contribution of pension income from private pension plans to the growth of income subject to tax, reflecting in particular the demographic trend in Québec. Since the early 2000s, pension income has grown at an annual rate of about 7.0%.

— the end, in 2014, of the EcoRenov tax credit for carrying out environmentally-friendly residential renovation work, which will help to boost revenue in 2015-2016.

Contributions to the Health Services Fund will rise by 3.5% in 2014-2015 and 2015-2016, in keeping with the expected growth in salaries and wages.

Corporate income tax revenue will rise by 7.3% in 2014-2015 and 6.9% in 2015-2016, reaching $3.9 billion and $4.2 billion respectively.

— This change is due essentially to the rise in the net operating surplus of corporations, which affects the increase in their taxable income and tax payable. Remittances, particularly those in respect of instalment payments, will resume more sustained growth after the slowdown anticipated in 2013-2014.

— Similarly, during the recovery period, refunds claimed by enterprises are expected to grow more moderately.

Growth in consumption tax revenue will amount to 1.9% and 3.4% in 2014-2015 and 2015-2016 respectively. These changes reflect the anticipated growth in households' taxable consumption and in residential investments.

— For 2014-2015, the beginning of the annual deposit of $100 million in the Generations Fund from revenue from the specific tax on alcoholic beverage will dampen growth in revenue for that year.

Revenue from natural resources paid into the general fund will increase by $62 million in 2014-2015 and then decline by $94 million in 2015-2016, to $146 million and $52 million respectively.

- For 2014-2015, the increase stems from the anticipated rise in mining royalties and the increase in forest royalties, resulting from expected growth in the value of timber.
- In 2015-2016, the decline in revenue paid into the general fund essentially results from the allocation of all mining revenues to the Generations Fund, as stipulated by the *Act respecting mainly the implementation of certain provisions of the Budget Speech of 20 November 2012* adopted in June 2013.

❑ Change in revenue consistent with that of the economy

Overall, for the next two years, the expected growth in own-source revenue excluding government enterprises is consistent with nominal economic growth, once it has been adjusted, particularly by the financial impact of the fiscal measures of *Québec's Economic Policy – Putting Jobs First* tabled in fall 2013.

Allocation of revenue from the specific taxes on fuel, tobacco products and alcoholic beverages

The specific taxes on fuel, tobacco products and alcoholic beverages are consumption taxes. Revenue from these specific taxes is allocated in part to various funds dedicated to financing specific activities, such as the funding of the road network, public transit and culture or to certain public services (incentives for physical activity and the adoption of a healthy lifestyle).

Fuel taxes

For 2013-2014, the government's own-source revenue from the specific taxes on fuel totals nearly $2.3 billion. This amount includes:

- revenue from the specific tax of 19.2 cents and 20.2 cents per litre on gasoline and diesel fuel (non-coloured fuel oil) respectively, paid into the Land Transportation Network Fund (FORT) to finance the road network and public transit infrastructure ($2 164 million):
  - revenue from FORT, which also includes revenue from the specific tax of 1 cent per litre of gasoline sold within the territory of the Gaspésie–Îles-de-la-Madeleine administrative region to improve public transportation services in this region ($1 million);
- revenue from the specific tax of 3 cents per litre on kerosene fuel (domestic), aviation fuel and fuel oil for locomotives, paid into the general fund to finance the government's missions ($17 million);
- revenue from the specific tax of 3 cents per litre of gasoline sold within the territory of the Agence métropolitaine de transport (AMT), paid to the AMT, for public transportation services in the metropolitan Montréal region ($95 million).

Allocation of revenue from the specific taxes on fuel
(millions of dollars)

	2013-2014	2014-2015	2015-2016
FORT	2 164	2 200	2 229
General fund	17	18	18
AMT	95	95	96
TOTAL REVENUE	**2 276**	**2 313**	**2 343**

Allocation of revenue from the specific taxes on fuel, tobacco products and alcoholic beverages (cont.)

Tax on tobacco products

For 2013-2014, tax revenue from the sale of tobacco products amounts to $1 049 million, including:

- $928 million paid into the general fund;
- $121 million allocated to various special funds.

In 2014-2015 and 2015-2016, respectively, total revenue of $1 018 million and $983 million are anticipated, including :

- $887 million in 2014-2015 and $852 million in 2015-2016 for the general fund;
- $131 million annually, allocated to various special funds.

Allocation of revenue from the specific tax on tobacco products
(millions of dollars)

	2013-2014	2014-2015	2015-2016
General fund	**928**	**887**	**852**
Special funds			
– Sports and Physical Activity Development Fund	55	60	60
– Québec Cultural Heritage Fund	16	16	16
– Fund for the Promotion of a Healthy Lifestyle	20	20	20
– Early Childhood Development Fund	15	15	15
– Caregiver Support Fund	15	15	15
– Fonds Avenir Mécénat Culture(1)	—	5	5
Subtotal	**121**	**131**	**131**
TOTAL REVENUE	**1 049**	**1 018**	**983**

(1) This special fund will be created as part of the budget omnibus bill.

Allocation of revenue from the specific taxes on fuel, tobacco products and alcoholic beverages (concluded)

Specific tax on alcoholic beverages

Tax revenue from the sale of alcoholic beverages should total $554 million in 2013-2014 and reach $576 million in 2016-2017.

In 2013-2014, all tax revenues will be paid into the general fund. For 2014-2015 and 2015-2016, an average of $465 million will be dedicated to the fund annually. This latter amount will fall to $51 million in 2016-2017.

The decline in forecast general fund revenue as of 2014-2015 is explained by the deposit of a portion of the revenue from the specific tax on alcoholic beverages in the Generations Fund.

- In 2014-2015 and 2015-2016, an annual amount of $100 million from the specific tax will be allocated to the Generations Fund.
- As of 2016-2017, an additional amount of $425 million will be deposited in the Fund, bringing the total deposit from the specific tax on alcoholic beverages in the Generations Fund to $525 million annually.

Allocation of revenue from the specific tax on alcoholic beverages
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
General fund	**554**	**462**	**469**	**51**
Special funds				
- Generations Fund	—	100	100	525
TOTAL REVENUE	**554**	**562**	**569**	**576**

Revenue from natural resources

The government uses various means to enable Quebecers to benefit from their natural resources. For example, it collects royalties on resource development, as well as revenue from the attribution of licences.

- An exploration licence confers on the holder an exclusive right for exploration and the future development of the resource concerned. A lease (or right) to develop enables the holder to develop the resource in exchange for the payment of an annual rent.

In addition, to enable future generations to benefit from natural resource development and to ensure the sustainable development of our resources, the government has decided to devote a portion of the revenue derived from natural resources to:

- reducing the debt through deposits in the Generations Fund. As of 2015-2016, all mining revenues will be deposited in the Generations Fund. This will represent $115 million in 2015-2016;
- funding mining activity management, geoscientific work and data acquisition, as well as research on and the development of techniques for the exploration, development, redevelopment and rehabilitation of mining sites (Natural Resources Fund (NRF) – Mining activity management and mining heritage components);
- forest management work to ensure the sustainability of Québec's forest (silvicultural work, forestry plans and programs in 2012-2013 and NRF – Forest management component as of 2013-2014).

Revenue from natural resources paid into the general fund is estimated at $84 million in 2013-2014, $146 million in 2014-2015 and $52 million in 2015-2016.

Revenue from natural resources
(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Royalties					
– Mining	191	70	120	125	160
– Forest	123	219	227	237	236
– Water-power	723	762	754	773	788
– Oil and natural gas	—	—	—	—	—
Total – Royalties	**1 037**	**1 051**	**1 101**	**1 135**	**1 184**
Duties and licences	**20**	**35**	**39**	**46**	**48**
Deposits in the Generations Fund	**–717**	**–759**	**–751**	**–885**	**–935**
Natural Resources Fund					
Mining activity management and mining heritage components	–20	–23	–23	–23	–23
Forest management component	—	–220	–220	–221	–221
Subtotal	**–20**	**–243**	**–243**	**–244**	**–244**
Silvicultural work, forestry plans and programs	**–121**	—	—	—	—
TOTAL – REVENUE PAID INTO THE GENERAL FUND	**199**	**84**	**146**	**52**	**53**

2.1.2 Revenue from government enterprises

☐ Results for 2013-2014

Revenue from government enterprises is adjusted upward by $86 million for 2013-2014. The better-than anticipated result of Hydro-Québec offsets the lower-than-anticipated results of all the other government enterprises.

☐ Outlook for 2014-2015 and 2015-2016

Revenue from government enterprises for 2014-2015 and 2015-2016 will amount to $5 124 million and $5 164 million respectively. Anticipated revenue will grow by 0.1% in 2014-2015 and 0.8% in 2015-2016 before the allocation to the Generations Fund of $71 million and $165 million from Hydro-Québec's revenue from the indexation of the price of heritage electricity.

TABLE D.7

General fund
Change in revenue from government enterprises
(millions of dollars)

	November 2013 *Update*		Budget 2014-2015		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Hydro-Québec	2 800	142	2 942	2 900	2 890
Loto-Québec	1 157	—	1 157	1 181	1 211
Société des alcools du Québec	1 037	–31	1 006	1 010	1 030
Other	41	–25	16	33	33
Subtotal	**5 035**	**86**	**5 121**	**5 124**	**5 164**
% change	***–1.4***		***0.3***	***0.1***	***0.8***
Hydro-Québec revenue allocated to the Generations Fund(1)	—	—	—	–71	–165
REVENUE FROM GOVERNMENT ENTERPRISES	**5 035**	**86**	**5 121**	**5 053**	**4 999**

(1) Corresponds to the amounts relating to the indexation of the price of heritage electricity.

2.1.3 **Revenues from federal transfers**

Revenues from federal transfers, before the payment relating to federal compensation for harmonizing the QST with the GST, should reach $15.6 billion in 2013-2014, i.e. $50 million more than forecast in the November 2013 *Update*.

- Taking into account the second payment of $1 467 million in federal compensation for harmonizing the QST with the GST and the allocation of $430 million from this compensation to the Fund to Finance Health and Social Services Institutions (FINESSS), federal transfers will grow by 6.1%, to $16.7 billion in 2013-2014.
- The increase of $50 million in 2013-2014 compared with the November 2013 *Update* can be explained in particular by an upward adjustment of $27 million to transfers for health and $5 million to transfers for post-secondary education and other social programs, arising mainly from the decrease in the value of the special Québec abatement, which is subtracted from these transfers.

In 2014-2015, federal transfers should rise by 8.3% and amount to $16.9 billion. This increase is chiefly explained by:

- an increase in equalization payments in 2014-2015, resulting mainly from the impact of the decrease in Hydro-Québec's dividend in 2012-2013, attributable to the closure of the Gentilly-2 nuclear power plant, and of the incorporation of the upward adjustments to Québec's population stemming from the 2011 Census:
  - an upward adjustment in Québec's population reduces its per capita fiscal capacity (fiscal capacity divided by a larger population) and distances it from the average fiscal capacity of the 10 provinces. The shortfall to be offset in relation to the average of the 10 provinces is thus bigger, which increases Québec's equalization payments;
- a decrease in health transfers, which can be explained by the end of the Wait Times Reduction Transfer ($58 million for Québec) and the fact that the value of tax points transferred to the provinces in 1977 are no longer taken into account in the allocation of the Canada Health Transfer (CHT) envelope, which represents a shortfall of $208 million for Québec.

Including the allocation of $430 million from health transfers to FINESSS, federal transfers will stand at $16.5 billion in 2014-2015.

For 2015-2016, federal transfers are expected to reach $17.3 billion, an increase of 2.5% that can be attributed among other things to the growth in health transfers, which stems essentially from the increase in the CHT envelope for the provinces as a whole.

TABLE D.8

General fund
Change in federal transfer revenues

(millions of dollars)

	November 2013 *Update*		Budget 2014-2015		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Equalization	7 833	—	7 833	9 286	9 377
% change	*6.0*		*6.0*	*18.5*	*1.0*
Health transfers	5 256	27	5 283	5 238	5 564
% change	*9.7*		*10.2*	*–0.9*	*6.2*
Transfers for post-secondary education and other social programs	1 528	5	1 533	1 571	1 592
% change	*2.8*		*3.2*	*2.5*	*1.3*
Other programs	965	18	983	833	815
% change	*2.3*		*4.2*	*–15.3*	*–2.2*
Subtotal	**15 582**	**50**	**15 632**	**16 928**	**17 348**
% change	***4.1***		***4.4***	***8.3***	***2.5***
Harmonization of the QST with the GST - Compensation	1 467	—	1 467	—	—
Allocation to FINESSS[(1)] of a portion of the compensation for harmonization of the QST with the GST	–430	—	–430	—	—
Allocation to FINESSS of a portion of health transfers	—		—	–430	—
FEDERAL TRANSFERS	**16 619**	**50**	**16 669**	**16 498**	**17 348**
% change	***5.8***		***6.1***	***–1.0***	***5.2***

(1) Fund to Finance Health and Social Services Institutions.

2.2 Budgetary expenditure

Budgetary expenditure, which includes program spending and debt service, is adjusted downward by $73 million in 2013-2014.

Budgetary expenditure should increase by 1.9% in 2014-2015 and 2015-2016.

TABLE D.9

General fund
Change in budgetary expenditure
(millions of dollars)

	November 2013 *Update*		**Budget 2014-2015**		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Program spending	63 825	—	63 825	65 132	66 442
% change	*2.5*		*2.5*	*2.0*	*2.0*
Debt service	8 583	–73	8 510	8 601	8 685
% change	*10.5*		*9.6*	*1.1*	*1.0*
TOTAL	**72 408**	**–73**	**72 335**	**73 733**	**75 127**
% change	***3.4***		***3.3***	***1.9***	***1.9***

2.2.1 Program spending

Ongoing responsible management of spending will make it possible to keep growth in program spending at 2.0% in 2014-2015 and 2015-2016.

These spending objectives take into account:

- investments of $15 million in 2014-2015 and $40 million in 2015-2016, which will support the implementation of patient-based funding in health care by improving management information in the health and social services sector;
- an amount of $10 million in 2014-2015 and 2015-2016 to fund new initiatives for collecting government revenues;
- an amount of $1 million in 2014-2015 and $2 million in 2015-2016 to better oversee oil development.

Accordingly, Budget 2014-2015 does not include any new measures or improvements to existing programs that increase the program spending objective.

Consequently, program spending objectives are being raised by $26 million for 2014-2015 and $52 million for 2015-2016.

TABLE D.10

General fund
Change in program spending
(millions of dollars)

	2013-2014	2014-2015	2015-2016
PROGRAM SPENDING OBJECTIVE – NOVEMBER 2013	**63 825**	**65 106**	**66 390**
% change	***2.5***	***2.0***	***2.0***
Expenditure adjustments			
Implementation of patient-based funding	—	15	40
Collection of all government revenues	—	10	10
Oversight of oil development	—	1	2
New measures or improvements to existing programs	—	—	—
ADJUSTMENTS	**—**	**26**	**52**
PROGRAM SPENDING OBJECTIVE – BUDGET 2014-2015	**63 825**	**65 132**	**66 442**
% change	***2.5***	***2.0***	***2.0***

2.2.2 Debt service

In 2013-2014, the debt service of the general fund should stand at $8.5 billion, i.e. $5.2 billion for direct debt service and $3.3 billion for interest on the liability related to the retirement plans of public and parapublic sector employees.

Overall, debt service is adjusted downward by $73 million in 2013-2014, chiefly because of the downward adjustment in long-term interest rates.

Debt service is expected to rise by 9.6% in 2013-2014. This increase is attributable to higher long-term interest rates, the rise in the debt, the impact of the new actuarial valuations of the retirement plans as well as the impact of the returns of the Caisse de dépôt et placement du Québec on the income of the Retirement Plans Sinking Fund (RPSF). The income of the RPSF is applied against the government's debt service.

In 2014-2015 and 2015-2016, debt service is expected to rise by about 1.0% per year, owing in particular to the fact that the income of the RPSF, which reduces debt service, will no longer be affected by the gradual incorporation, over five years, of the losses posted by the RPSF in 2008. The gradual incorporation of these losses ends in 2013-2014.

TABLE D.11

General fund
Change in debt service
(millions of dollars)

	November 2013 *Update*		Budget 2014-2015		
	2013-2014	**Adjustments**	**2013-2014**	**2014-2015**	**2015-2016**
Direct debt service	5 298	–76	5 222	5 552	5 782
Interest on the retirement plans liability(1)	3 299	5	3 304	3 065	2 922
Interest on the employee future benefits liability(2)	–14	–2	–16	–16	–19
DEBT SERVICE	**8 583**	**–73**	**8 510**	**8 601**	**8 685**
% change	***10.5***		***9.6***	***1.1***	***1.0***

(1) Corresponds to the interest on the obligations relating to the retirement plans of public and parapublic sector employees less the investment income of the Retirement Plans Sinking Fund.

(2) Corresponds to the interest on the obligation relating to the survivor's pension plan less the investment income of the Survivor's Pension Plan Fund and the interest on the obligation relating to accumulated sick leave less the investment income of the Accumulated Sick Leave Fund.

2.3 Consolidated expenditure

The following table shows the amount and the change in the components of consolidated expenditure, i.e. all public expenditure included in the government's reporting entity.

— In addition to program spending, consolidated expenditure includes the expenditure of special funds, non-budget-funded bodies, institutions in the health and social services and education networks, specified purpose accounts, tax-funded expenditures, and the debt service of these entities.

Consolidated expenditure, excluding debt service, will grow by 2.5% in 2014-2015 and 2.0% in 2015-2016.

TABLE D.12

Change in consolidated expenditure

(millions of dollars)

	2013-2014	2014-2015	2015-2016
Program spending	63 825	65 132	66 442
% change	*2.5*	*2.0*	*2.0*
Special funds	8 495	8 702	8 708
% change	*22.1*	*2.4*	*0.1*
Non-budget-funded bodies	18 285	19 033	20 566
% change	*5.5*	*4.1*	*8.1*
Health and social services and education networks	37 759	38 415	38 795
% change	*2.7*	*1.7*	*1.0*
Specified purpose accounts	1 077	1 161	958
% change	*–1.9*	*7.8*	*–17.5*
Tax-funded expenditures(1)	6 293	6 488	6 548
% change	*4.6*	*3.1*	*0.9*
Consolidation adjustments(2)	–52 091	–53 189	–54 536
Consolidated expenditure excluding debt service	**83 643**	**85 742**	**87 481**
% change	*3.7*	*2.5*	*2.0*
Debt service			
General fund	8 510	8 601	8 685
% change	*9.6*	*1.1*	*1.0*
Consolidated entities(3)	2 260	2 364	2 653
% change	*9.0*	*4.6*	*12.2*
Consolidated debt service	**10 770**	**10 965**	**11 338**
% change	*9.5*	*1.8*	*3.4*
CONSOLIDATED EXPENDITURE	**94 413**	**96 707**	**98 819**
% change	***4.3***	***2.4***	***2.2***

(1) Includes doubtful tax accounts.

(2) The consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Includes consolidation adjustments.

❑ Special funds

Excluding debt service, spending by special funds will grow by 22.1% in 2013-2014, 2.4% in 2014-2015 and 0.1% in 2015-2016.

The increase in 2013-2014 is chiefly attributable to two factors:

- growth in spending by certain special funds with own-source revenue, particularly:
  - FINESSS, for financing health care institutions,
  - the Land Transportation Network Fund, for financing road and public transit infrastructures,
  - the Green Fund, given the deployment of the 2013-2020 Climate Change Action Plan (2013-2020 CCAP),
  - the Natural Resources Fund, following the coming into force of the new forest regime in 2013 that henceforth includes the cost of silviculture credits that, until 2012-2013, were charged against forest royalties;
- the creation of two new funds, namely:
  - the Goods and Services Fund which was previously a non-budget-funded body:
    - the Goods and Services Fund was created on April 1, 2013 and the activities of Services Québec, a non-budget-funded body, were transferred to it. For 2012-2013, the financial data on these activities are shown in non-budget-funded bodies while in 2013-2014, they are shown in special funds. On a comparable basis, the growth rate in 2013-2014 stands at 20.6% for special funds and 6.0% for non-budget-funded bodies,
  - the Health and Social Services Information Resources Fund, formerly SOGIQUE, which is funded essentially by health care institutions.

☐ Non-budget-funded bodies

For 2013-2014 and 2014-2015, spending by non-budget-funded bodies will rise by 5.5% and 4.1% annually.

The primary mission of certain non-budget-funded bodies accounts for the higher growth in their spending. In particular, that is the case with the Régie de l'assurance maladie du Québec (RAMQ) and the Prescription Drug Insurance Fund (PDIF).

☐ Health and social services and education networks

Spending by institutions in the health and social services and education networks will rise by 2.7% and 1.7% respectively in 2013-2014 and 2014-2015. This increase excludes costs relating to the remuneration of physicians, which is covered by the RAMQ.

For 2014-2015, it takes into account the additional contribution of $430 million from health transfers paid into FINESSS.

☐ Specified purpose accounts

Spending by the specified purpose accounts posts a decline of 1.9% in 2013-2014 and an increase of 7.8% in 2014-2015.

☐ Tax-funded expenditures

Refundable tax credits for individuals and corporations, which are similar to tax-funded expenditures, are classified in spending rather than as reductions in revenue. Doubtful tax accounts are added to these expenditures.

Tax-funded expenditures will rise by 4.6% in 2013-2014, 3.1% in 2014-2015 and 0.9% in 2015-2016.

3. CONSOLIDATED REVENUE AND EXPENDITURE

The consolidated financial forecasts include the budgetary revenue and expenditure of the general fund as well as the budgetary revenue and expenditure of all the entities in the government's reporting entity.

They provide more detailed information on the revenue and expenditure included in the government's financial projections. In addition, these financial forecasts enable reconciliation with the actual results presented in the public accounts.

With a view to improving quality and transparency and to ensure the information in the budget documents is better aligned with the presentation in the public accounts, the budget plan will henceforth present income and property taxes in greater detail, by the following revenue sources:

- personal income tax;
- contributions for health services, which include contributions to the Health Services Fund and revenue from the health contribution;
- corporate taxes;
- school property tax.

TABLE D.13

Consolidated financial framework from 2013-2014 to 2015-2016

(millions of dollars)

	2013-2014	2014-2015	2015-2016
Consolidated revenue			
Personal income tax	26 347	27 646	28 940
Contributions for health services	6 223	6 434	6 648
Corporate taxes	5 892	6 231	6 592
School property tax	1 729	1 832	1 957
Consumption taxes	17 067	17 369	17 916
Duties and permits	2 045	2 323	2 504
Miscellaneous	9 055	9 787	10 107
Government enterprises	5 121	5 053	4 999
Generations Fund revenue	1 072	1 296	1 642
Own-source revenue	**74 551**	**77 971**	**81 305**
% change	***3.0***	***4.6***	***4.3***
Federal transfers	18 559	18 282	18 826
% change	*5.9*	*–1.5*	*3.0*
Total consolidated revenue	**93 110**	**96 253**	**100 131**
% change	***3.6***	***3.4***	***4.0***
Consolidated expenditure			
Expenditure	–83 643	–85 742	–87 481
% change	*3.7*	*2.5*	*2.0*
Debt service	–10 770	–10 965	–11 338
Total consolidated expenditure	**–94 413**	**–96 707**	**–98 819**
% change	***4.3***	***2.4***	***2.2***
Contingency reserves	–125	—	–200
Shortfall to be offset	—	—	530
SURPLUS (DEFICIT)	**–1 428**	**–454**	**1 642**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 072	–1 296	–1 642
BUDGETARY BALANCE[1]	**–2 500**	**–1 750**	**—**

[1] Budgetary balance within the meaning of the *Balanced Budget Act*.

3.1 Change in consolidated revenue and expenditure by sector

Table D.14 presents the government's consolidated financial framework by sector for fiscal 2013-2014 to 2015-2016.

More specifically, tables D.15, D.16 and D.17 present detailed consolidated results by sector for 2013-2014 to 2015-2016.

This segmented information shows separately the transactions carried out by the general fund, special funds, non-budget-funded bodies, health and social services and education networks and specified purpose accounts.

Lastly, to determine consolidated revenue and expenditure levels, financial transactions between entities in the government's reporting entity are eliminated.

TABLE D.14

Financial framework for consolidated revenue and expenditure by sector

(millions of dollars)

	2013-2014	2014-2015	2015-2016
Revenue			
General fund	69 817	71 583	74 621
Special funds	9 923	10 476	10 722
Generations Fund	1 072	1 296	1 642
Non-budget-funded bodies	19 481	20 253	21 694
Health and social services and education networks	38 593	39 291	39 824
Specified purpose accounts	1 077	1 161	958
Tax-funded transfers(1)	6 293	6 488	6 548
Consolidation adjustments(2)	–53 146	–54 295	–55 878
Consolidated revenue	**93 110**	**96 253**	**100 131**
Expenditure			
General fund	–63 825	–65 132	–66 442
Special funds	–8 495	–8 702	–8 708
Non-budget-funded bodies	–18 285	–19 033	–20 566
Health and social services and education networks	–37 759	–38 415	–38 795
Specified purpose accounts	–1 077	–1 161	–958
Tax-funded expenditures(1)	–6 293	–6 488	–6 548
Consolidation adjustments(2)	52 091	53 189	54 536
Consolidated expenditure excluding debt service	**–83 643**	**–85 742**	**–87 481**
Debt service			
General fund	–8 510	–8 601	–8 685
Consolidated entities(3)	–2 260	–2 364	–2 653
Consolidated debt service	**–10 770**	**–10 965**	**–11 338**
Consolidated expenditure	**–94 413**	**–96 707**	**–98 819**
Contingency reserves	–125	—	–200
Shortfall to be offset	—	—	530
SURPLUS (DEFICIT)	**–1 428**	**–454**	**1 642**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 072	–1 296	–1 642
BUDGETARY BALANCE(4)	**–2 500**	**–1 750**	**—**

(1) Includes doubtful tax accounts.

(2) The consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Includes consolidation adjustments.

(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE D.15

Detailed consolidated financial framework

(millions of dollars)

	2013-2014			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	19 502	1 082		
Contributions for health services	6 666	702		
Corporate taxes	3 643	175		
School property tax				
Consumption taxes	16 399	2 355		
Duties and permits	352	1 533		
Miscellaneous	1 465	1 531		245
Government enterprises	5 121			
Generations Fund revenue			1 072	
Own-source revenue	**53 148**	**7 378**	**1 072**	**245**
Québec government transfers		1 987		
Federal transfers	16 669	558		832
Total revenue	**69 817**	**9 923**	**1 072**	**1 077**
Expenditure				
Expenditure	–63 825	–8 495		–1 077
Debt service	–8 510	–1 238		
Total expenditure	**–72 335**	**–9 733**	**—**	**–1 077**
Contingency reserve	–125			
Shortfall to be offset				
SURPLUS (DEFICIT)	**–2 643**	**190**	**1 072**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 072	
BUDGETARY BALANCE (3)	**–2 643**	**190**	**—**	**—**

(1) Includes doubtful tax accounts.

(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2013-2014				
Tax-funded expenditures[1]	**Non-budget-funded bodies**	**Health and social services and education networks**	**Consolidation adjustments[2]**	**Consolidated results**
4 042			1 721	26 347
			–1 145	6 223
2 007	67			5 892
		1 729		1 729
244	121		–2 052	17 067
	390		–230	2 045
	5 405	4 136	–3 727	9 055
				5 121
				1 072
6 293	**5 983**	**5 865**	**–5 433**	**74 551**
	12 539	32 451	–46 977	—
	959	277	–736	18 559
6 293	**19 481**	**38 593**	**–53 146**	**93 110**
–6 293	–18 285	–37 759	52 091	–83 643
	–1 092	–911	981	–10 770
–6 293	**–19 377**	**–38 670**	**53 072**	**–94 413**
				–125
				—
—	**104**	**–77**	**–74**	**–1 428**
				–1 072
—	**104**	**–77**	**–74**	**–2 500**

TABLE D.16

Detailed consolidated financial framework

(millions of dollars)

	2014-2015			
	Consolidated Revenue Fund			
	General fund	Special funds	Generations Fund	Specified purpose accounts
Revenue				
Personal income tax	20 541	1 175		
Contributions for health services	6 901	718		
Corporate taxes	3 908	195		
School property tax				
Consumption taxes	16 703	2 405		
Duties and permits	426	1 669		
Miscellaneous	1 553	1 825		230
Government enterprises	5 053			
Generations Fund revenue			1 296	
Own-source revenue	**55 085**	**7 987**	**1 296**	**230**
Québec government transfers		1 957		
Federal transfers	16 498	532		931
Total revenue	**71 583**	**10 476**	**1 296**	**1 161**
Expenditure				
Expenditure	–65 132	–8 702		–1 161
Debt service	–8 601	–1 529		
Total expenditure	**–73 733**	**–10 231**	—	**–1 161**
Contingency reserve				
Shortfall to be offset				
SURPLUS (DEFICIT)	**–2 150**	**245**	**1 296**	—
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 296	
BUDGETARY REVENUE[3]	**–2 150**	**245**	—	—

(1) Includes doubtful tax accounts.

(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2014-2015				
Tax-funded expenditures[1]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments[2]	Consolidated results
4 179			1 751	27 646
			–1 185	6 434
2 058	70			6 231
		1 832		1 832
251	115		–2 105	17 369
	399		–171	2 323
	5 461	4 213	–3 495	9 787
				5 053
				1 296
6 488	**6 045**	**6 045**	**–5 205**	**77 971**
	13 559	32 966	–48 482	—
	649	280	–608	18 282
6 488	**20 253**	**39 291**	**–54 295**	**96 253**
–6 488	–19 033	–38 415	53 189	–85 742
	–950	–948	1 063	–10 965
–6 488	**–19 983**	**–39 363**	**54 252**	**–96 707**
				—
				—
—	**270**	**–72**	**–43**	**–454**
				–1 296
—	**270**	**–72**	**–43**	**–1 750**

TABLE D.17

Detailed consolidated financial framework

(millions of dollars)

	2015-2016			
	Consolidated Revenue Fund			
	General Fund	Special funds	Generations Fund	Specified purpose accounts
Revenue				
Personal income tax	21 754	1 239		
Contributions for health services	7 144	730		
Corporate taxes	4 177	208		
School property tax				
Consumption taxes	17 273	2 434		
Duties and permits	342	1 927		
Miscellaneous	1 584	2 149		213
Government enterprises	4 999			
Generations Fund revenue			1 642	
Own-source revenue	**57 273**	**8 687**	**1 642**	**213**
Québec government transfers		1 923		
Federal transfers	17 348	112		745
Total revenue	**74 621**	**10 722**	**1 642**	**958**
Expenditure				
Expenditure	–66 442	–8 708		–958
Debt service	–8 685	–1 899		
Total expenditure	**–75 127**	**–10 607**	**—**	**–958**
Contingency reserve	–200			
Shortfall to be offset	530			
SURPLUS (DEFICIT)	**–176**	**115**	**1 642**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 642	
BUDGETARY BALANCE(3)	**–176**	**115**	**—**	**—**

(1) Includes doubtful tax accounts.

(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2015-2016				
Tax-funded expenditures[1]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments[2]	Consolidated results
4 155			1 792	28 940
			–1 226	6 648
2 134	73			6 592
		1 957		1 957
259	117		–2 167	17 916
	410		–175	2 504
	5 653	4 287	–3 779	10 107
				4 999
				1 642
6 548	**6 253**	**6 244**	**–5 555**	**81 305**
	14 496	33 297	–49 716	—
	945	283	–607	18 826
6 548	**21 694**	**39 824**	**–55 878**	**100 131**
–6 548	–20 566	–38 795	54 536	–87 481
	–950	–1 060	1 256	–11 338
–6 548	**–21 516**	**–39 855**	**55 792**	**–98 819**
				–200
				530
—	**178**	**–31**	**–86**	**1 642**
				–1 642
—	**178**	**–31**	**–86**	**—**

3.2 Consolidated entities

In addition to the financial transactions of the general fund, the government's budgetary forecasts take into account all of the consolidated entities in the government's reporting entity, namely:

— the special funds;

— the Generations Fund;

— the non-budget-funded bodies;

— the health and social services and education networks.

The following table shows the net results of the consolidated entities.

TABLE D.18

Consolidated entities
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Special funds[1]	190	245	115
Generations Fund (dedicated revenues)	1 072	1 296	1 642
Non-budget-funded bodies	104	270	178
Health and social services and education networks	–77	–72	–31
Consolidation adjustments	–74	–43	–86
SURPLUS (DEFICIT)	**1 215**	**1 696**	**1 818**

(1) Excludes the Generations Fund.

3.2.1 Special funds

The special funds consist of 36 entities set up within government departments or bodies. Their mission is to deliver services and sell goods or to fund government programs.

The activities of the special funds may be financed through fees, tax revenues or budgetary appropriations allocated annually by Parliament.

The table below presents the net results of the special funds for 2013-2014 to 2015-2016. The special funds show surpluses of $190 million for 2013-2014, $245 million for 2014-2015 and $115 million for 2015-2016.

TABLE D.19

Special funds(1)
Statements of results
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Revenue			
Income and property taxes	1 959	2 088	2 177
Consumption taxes	2 355	2 405	2 434
Duties and permits	1 533	1 669	1 927
Miscellaneous	1 531	1 825	2 149
Own-source revenue	**7 378**	**7 987**	**8 687**
Québec government transfers	1 987	1 957	1 923
Federal transfers	558	532	112
Total revenue	**9 923**	**10 476**	**10 722**
Expenditure			
Expenditure	–8 495	–8 702	–8 708
Debt service	–1 238	–1 529	–1 899
Total expenditure	**–9 733**	**–10 231**	**–10 607**
SURPLUS (DEFICIT)	**190**	**245**	**115**

(1) Excludes the Generations Fund.

List of special funds

- Access to Justice Fund
- Assistance Fund for Independent Community Action
- Fonds d'aide aux victimes d'actes criminels
- Territorial Information Fund
- Labour Market Development Fund
- Regional Development Fund
- Financing Fund
- Fund to Finance Health and Social Services Institutions (FINESSS)
- Rolling Stock Management Fund
- Fonds de la Commission des lésions professionnelles[1]
- Fund of the Commission des relations du travail[1]
- Highway Safety Fund
- Tourism Partnership Fund
- Goods and Services Fund
- Caregiver Support Fund
- Generations Fund
- Register Fund of the Ministère de la Justice
- Land Transportation Network Fund (FORT)
- Health and Social Services Information Resources Fund
- Natural Resources Fund (NRF)
- Police Services Fund
- Information Technology Fund of the Ministère de l'Emploi et de la Solidarité sociale
- Fund of the Bureau de décision et de révision[1]
- Fonds du centre financier de Montréal
- Economic Development Fund
- Northern Development Fund
- Québec Cultural Heritage Fund
- Fund of the Administrative Tribunal of Québec[1]
- Fund for the Promotion of a Healthy Lifestyle
- Early Childhood Development Fund
- Sports and Physical Activity Development Fund
- University Excellence and Performance Fund
- Fonds québécois d'initiatives sociales
- Natural Disaster Assistance Fund
- Tax Administration Fund (FRAF)
- Green Fund

[1] Includes the operations of the body that performs an adjudicative role.

3.2.2 Generations Fund

For 2013-2014, 2014-2015 and 2015-2016, projected revenues dedicated to the Generations Fund will amount to $1 072 million, $1 296 million and $1 642 million respectively. As a result, the book value of the Generations Fund will reach $8 548 million as at March 31, 2016. The results of and change in the Generations Fund are presented in greater detail in Section H.

TABLE D.20

Revenues dedicated to the Generations Fund
(millions of dollars)

	2013-2014[1]	2014-2015	2015-2016
Water-power royalties	759	751	770
Indexation of the price of heritage electricity	—	71	165
Mining revenues	—	—	115
Tax on alcoholic beverages	—	100	100
Unclaimed property	19	9	9
Investment income	294	365	483
TOTAL	**1 072**	**1 296**	**1 642**

(1) Excludes the deposit of $300 million from the Territorial Information Fund and the use of $1 billion to repay maturing borrowings.

3.2.3 Non-budget-funded bodies

Non-budget-funded bodies were created to provide specific public services. These bodies include:

- La Financière agricole du Québec in the agricultural sector;
- the Agence métropolitaine de transport and the Société des traversiers du Québec in the transportation sector;
- government museums and the Société de développement des entreprises culturelles in the cultural sector.

The 60 non-budget-funded bodies are expected to show surpluses of $104 million in 2013-2014, $270 million in 2014-2015 and $178 million in 2015-2016.

TABLE D.21

Non-budget-funded bodies
Statements of results
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Revenue			
Income and property taxes	67	70	73
Consumption taxes	121	115	117
Duties and permits	390	399	410
Miscellaneous	5 405	5 461	5 653
Own-source revenue	**5 983**	**6 045**	**6 253**
Québec government transfers	12 539	13 559	14 496
Federal transfers	959	649	945
Total revenue	**19 481**	**20 253**	**21 694**
Expenditure			
Expenditure	–18 285	–19 033	–20 566
Debt service	–1 092	–950	–950
Total expenditure	**–19 377**	**–19 983**	**–21 516**
SURPLUS (DEFICIT)	**104**	**270**	**178**

List of non-budget-funded bodies

- Agence du revenu du Québec
- Agence métropolitaine de transport
- Autorité des marchés financiers
- Bibliothèque et Archives nationales du Québec
- Centre de la francophonie des Amériques
- Centre de recherche industrielle du Québec
- Centre de services partagés du Québec
- Commission de la capitale nationale du Québec
- Commission des normes du travail
- Commission des services juridiques
- Conseil des arts et des lettres du Québec
- Conservatoire de musique et d'art dramatique du Québec
- Corporation d'urgences-santé
- École nationale de police du Québec
- École nationale des pompiers du Québec
- Financement-Québec
- Fondation de la faune du Québec
- Fonds d'aide aux recours collectifs
- Fonds de l'assurance médicaments
- Fonds de recherche du Québec – Nature et technologies
- Fonds de recherche du Québec – Santé
- Fonds de recherche du Québec – Société et culture
- Héma-Québec
- Institut de la statistique du Québec
- Institut de tourisme et d'hôtellerie du Québec
- Institut national de la santé publique du Québec
- Institut national des mines
- Institut national d'excellence en santé et services sociaux
- La Financière agricole du Québec
- Musée d'art contemporain de Montréal
- Musée de la civilisation
- Musée national des beaux-arts du Québec
- Office de la sécurité du revenu des chasseurs et piégeurs cris
- Office des professions du Québec
- Office Québec-Amériques pour la jeunesse
- Office Québec-Monde pour la jeunesse
- Régie de l'assurance maladie du Québec
- Régie de l'énergie
- Régie des installations olympiques
- Régie du bâtiment du Québec
- Régie du cinéma
- Société de développement de la Baie-James
- Société de développement des entreprises culturelles
- Société de financement des infrastructures locales du Québec
- Société de la Place des Arts de Montréal
- Société de l'assurance automobile du Québec
- Société des établissements de plein air du Québec
- Société des parcs de sciences naturelles du Québec
- Société des traversiers du Québec
- Société de télédiffusion du Québec
- Société d'habitation du Québec
- Société du Centre des congrès de Québec
- Société du Grand Théâtre de Québec
- Société du Palais des congrès de Montréal
- Société du parc industriel et portuaire de Bécancour
- Société nationale de l'amiante
- Société québécoise d'assainissement des eaux
- Société québécoise de récupération et de recyclage
- Société québécoise des infrastructures
- Société québécoise d'information juridique

3.2.4 Health and social services and education networks

The health and social services network is made up of 197 entities. These entities comprise 15 agencies and one regional authority in health and social services, as well as 181 public health and social services institutions.

As for the education network, it is made up of 132 entities, including 72 school boards, the Comité de gestion de la taxe scolaire de l'île de Montréal, 48 CEGEPS and the Université du Québec and its 10 constituent universities.

The health and social services and education networks will show a deficit of $77 million in 2013-2014, $72 million in 2014-2015 and $31 million in 2015-2016.

TABLE D.22

Health and social services and education networks
Statements of results
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Revenue			
Income and property taxes	1 729	1 832	1 957
Miscellaneous	4 136	4 213	4 287
Own-source revenue	**5 865**	**6 045**	**6 244**
Québec government transfers	32 451	32 966	33 297
Federal transfers	277	280	283
Total revenue	**38 593**	**39 291**	**39 824**
Expenditure			
Expenditure	–37 759	–38 415	–38 795
Debt service	–911	–948	–1 060
Total expenditure	**–38 670**	**–39 363**	**–39 855**
SURPLUS (DEFICIT)	**–77**	**–72**	**–31**

4. GOVERNMENT INVESTMENTS

The government is continuing to implement the policy directions presented in Budget 2013-2014 in order to:

- improve the management and planning of capital investments;
- reconcile the need to renew and develop infrastructure with the government's ability to pay.

☐ Investment levels that meet Québec's needs

In April 2013, the government released the 2013-2023 Québec Infrastructures Plan (QIP), which provides for public capital investments totalling $92.3 billion over 10 years and is part of a long-term approach to managing infrastructure maintenance and development funding.

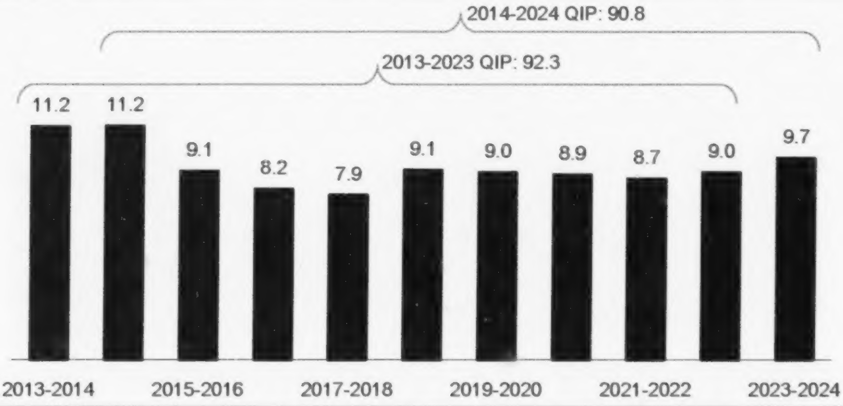
In addition, the government announced in *Québec's Economic Policy – Putting Jobs First* the acceleration of $565 million in investments stipulated in the QIP for 2014-2015 to 2017-2018 in order to meet the pressing need to renovate and modernize the infrastructures of schools, community sport and recreation institutions, and the facilities of the Société des établissements de plein air du Québec.

The government confirms that capital investment levels will remain high in order to meet Québec's needs.

- In this regard, the 2014-2024 QIP will amount to $90.8 billion.

CHART D.1

Investments under the Québec Infrastructures Plan – Annual targets
(billions of dollars)



These investments will enable the government to achieve its objectives to maintain assets in good condition and offset the maintenance deficit, while remaining aligned with its ability to pay and its debt reduction objectives.

These investments will also provide powerful stimulus for economic activity and job creation in every region of Québec.

— In particular, in Québec regions with more moderate economic activity, the government will make every effort to launch investment projects as quickly as possible.

The Secrétariat du Conseil du trésor will make public, at a later date, the details of public capital investments under the 2014-2024 QIP, particularly by sector and type of investment.

Concrete actions for quality infrastructure

In the wake of the conclusions of the SECOR-KPMG report entitled *Étude sur la gestion actuelle du Plan québécois des infrastructures et sur le processus de planification des projet*s, which revealed major shortcomings in infrastructure project planning, the government responded rapidly by releasing the action plan *A Better Way to Manage our Infrastructure* in order to overhaul how infrastructure management is carried out.

The government implemented the action plan by proposing a truly long-term vision of project management and investment planning, based on best practices, discipline and transparency. The vision is becoming a reality, particularly through:

- the announcement of the Québec Infrastructures Plan covering a 10-year period and all the government's investments;
- the tabling and adoption of the *Public Infrastructure Act*;
- the adoption of a directive on the management of major public infrastructure projects.

❑ Major new investments for the Montréal region

As part of investment planning for the 2013-2023 decade, the government is allocating $34.2 billion, or 37.0% of the 2013-2023 QIP, to capital investments in the administrative region of Montréal.

This level of public investment will enable the Montréal region to spur its economic growth thanks to modern, quality infrastructure.

Of the $34.2 billion in investments, $18.6 billion will be allocated to maintaining assets in good condition and $15.6 billion to improving and replacing infrastructure.

TABLE D.23

Investments in the administrative region of Montréal(1)

Investments for Montréal in the 2013-2023 QIP(2)	**$34,2 billion**
Maintenance of assets	*$18,6 billion*
Improvement and replacement	*$15,6 billion*
Percentage in relation to the 2013-2023 QIP	37.0%
Montréal GDP/ Québec GDP	34.6%

(1) Consisting of the municipalities of Île de Montréal.
(2) The total amount allocated to Montréal has been calculated on the basis of an hypothesis of allocation in proportion to the amounts reserved centrally and by sector.

■ Investments for the 375th anniversary of the founding of Montréal

As part of the celebrations marking the 375th anniversary of Montréal, the government has undertaken to contribute financially to developmental projects related to the history and distinctive image of Montréal.

The government is reiterating its commitment to provide financial support to developmental, sustainable projects that will benefit Montréal and Quebecers as a whole. In particular, the government will financially support the Parc Jean-Drapeau, Space for Life, Montreal Museum of Fine Arts and Musée Pointe-à-Callière projects.

5. NON-BUDGETARY TRANSACTIONS

Non-budgetary transactions consist of the transactions of the general fund and those of the consolidated entities. They are presented by activity, namely:

— investments, loans and advances;

— capital expenditures;

— retirement plans and employee future benefits;

— other accounts.

For 2013-2014, non-budgetary requirements stand at $1.4 billion. In 2014-2015 and 2015-2016, non-budgetary requirements are expected to total $2.4 billion and $2.3 billion respectively.

TABLE D.24

Summary of non-budgetary transactions(1)
(millions of dollars)

	2013-2014	2014-2015	2015-2016
General fund			
Investments, loans and advances	–476	–874	–804
Capital expenditures	–44	–49	–56
Retirement plans and employee future benefits	3 046	3 045	3 014
Other accounts	–488	–213	–592
Total	**2 038**	**1 909**	**1 562**
Consolidated entities			
Investments, loans and advances	–916	–553	–649
Capital expenditures	–4 233	–4 189	–3 988
Retirement plans and employee future benefits	97	88	88
Other accounts	1 645	300	643
Total	**–3 407**	**–4 354**	**–3 906**
Summary of non-budgetary transactions			
Investments, loans and advances	–1 392	–1 427	–1 453
Capital expenditures	–4 277	–4 238	–4 044
Retirement plans and employee future benefits	3 143	3 133	3 102
Other accounts	1 157	87	51
TOTAL NON-BUDGETARY TRANSACTIONS	**–1 369**	**–2 445**	**–2 344**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

❑ Investments, loans and advances

Net financial requirements for investments, loans and advances are estimated at $1.4 billion for each of fiscal years 2013-2014 and 2014-2015 and $1.5 billion for 2015-2016.

For 2013-2014, financial requirements for investments, loans and advances of the general fund are estimated at $476 million.

The investments, loans and advances of consolidated entities should contribute to increasing financing needs by $916 million in 2013-2014.

❑ Capital expenditures

In 2013-2014, financial requirements associated with capital expenditures are expected to total $4.3 billion.

Forecast financial requirements for 2014-2015 and 2015-2016 stand at $4.2 billion and $4.0 billion respectively.

TABLE D.25

Net capital investments(1)
(millions of dollars)

	2013-2014	2014-2015	2015-2016
General fund			
Investments	–200	–208	–215
Depreciation	156	159	159
Net investments - General fund	**–44**	**–49**	**–56**
Consolidated entities			
Investments	–8 632	–8 904	–8 364
Depreciation	3 463	3 678	3 933
Net investments – Consolidated entities	**–5 169**	**–5 226**	**–4 431**
CONSOLIDATED			
Investments	–8 832	–9 112	–8 579
Depreciation	3 619	3 837	4 092
Net investments - Consolidated	**–5 213**	**–5 275**	**–4 487**
Less: PPP investments(2)	936	1 037	443
NET CAPITAL INVESTMENTS	**–4 277**	**–4 238**	**–4 044**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) Investments made under public-private partnership (PPP) agreements correspond to new commitments that are taken into account in the government's gross debt.

Capital investments made under public-private partnership (PPP) agreements do not entail financial requirements for the government for the portion of financing borne by the private partner. In accordance with the government's accounting policies, PPP investments are recognized in the government's assets as well as in its debt.

❑ Retirement plans and employee future benefits

The balance of non-budgetary transactions for the retirement plans and employee future benefits is expected to be $3.1 billion for each of fiscal years for 2013-2014, 2014-2015 and 2015-2016, which reduces the government's financing needs.

❑ Other accounts

Financial requirements for other accounts consist of a series of changes in assets and liabilities such as accounts receivable, accounts payable and deferred revenue.

In 2013-2014, the change in these other accounts is expected to constitute a $1.2-billion source of financing.

6. NET FINANCIAL REQUIREMENTS

Surpluses or net financial requirements represent the difference between the government's cash inflow and disbursements. These surpluses or financial requirements take into account not only changes in the budgetary balance on an accrual basis, but also resources or requirements arising from the acquisition of fixed assets, loans, investments and advances, and from other activities such as paying accounts payable and collecting accounts receivable. The difference between the budgetary balance and net financial requirements is recognized in non-budgetary transactions.

As a whole, the government's net financial requirements should amount to $2.8 billion in 2013-2014, $2.9 billion in 2014-2015 and $0.7 billion in 2015-2016.

TABLE D.26

Net financial requirements(1)
(millions of dollars)

	2013-2014	2014-2015	2015-2016
SURPLUS (DEFICIT)	–1 428	–454	1 642
Non-budgetary transactions			
Investments, loans and advances	–1 392	–1 427	–1 453
Capital expenditures	–4 277	–4 238	–4 044
Retirement plans and employee future benefits	3 143	3 133	3 102
Other accounts	1 157	87	51
Total non-budgetary transactions	**–1 369**	**–2 445**	**–2 344**
NET FINANCIAL REQUIREMENTS	**–2 797**	**–2 899**	**–702**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

Net financial requirements come from the following sources:

- the net financial requirements of the general fund are estimated at $0.6 billion for 2013-2014 and $0.2 billion in 2014-2015. The general fund should show a surplus of $1.4 billion in 2015-2016. These variations mainly reflect the deficits forecast for 2013-2014 and 2014-2015 and the return to a balanced budget in 2015-2016;

- the net financial requirements of consolidated entities, excluding the Generations Fund, will stand at $3.6 billion for 2013-2014, $4.0 billion for 2014-2015 and $3.7 billion for 2015-2016. These net financial requirements stem largely from infrastructure investments projected by the Land Transportation Network Fund and by the health and social services and education networks.

The net financial surpluses of the Generations Fund are expected to amount to $1.4 billion for 2013-2014, $1.3 billion for 2014-2015 and $1.6 billion for 2015-2016.

TABLE D.27

Net financial requirements by entity(1)
(millions of dollars)

	2013-2014	2014-2015	2015-2016
General fund	–605	–241	1 386
Consolidated entities(2)	–3 564	–3 954	–3 730
Generations Fund	1 372	1 296	1 642
NET FINANCIAL REQUIREMENTS	**–2 797**	**–2 899**	**–702**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) Excludes the Generations Fund.

APPENDIX: SENSITIVITY ANALYSIS OF ECONOMIC VARIABLES

The financial framework's forecasts incorporate certain components of uncertainty that do not depend on the government directly, but which may cause actual results to differ from the forecasts.

Sensitivity of the Québec economy to external shocks

The forecasts for the Québec economy are based on extensive analyses, including periodic assessments of the main economic statistics and the results obtained with various econometric models.

Given that the Québec economy is characterized by considerable openness to trade, Québec's economic variables are influenced by several external factors. The most important of these factors are related to the activities of Québec's main trading partners, the United States and Canada.

■ Impact of external variables on the Québec economy

An analysis conducted with a Structural VAR[2] model has made it possible to estimate, on the basis of historical data, the sensitivity of Québec's economic variables to certain important external variables.

— The findings show that a shock equivalent to 1% of U.S. real GDP entails, on average, a change of 0.5% in Québec's real GDP.

In addition, the model suggests that Québec's real GDP is influenced to a greater extent by the economic activity of Ontario than by that of the rest of Canada.

— Ontario is the Canadian province with which Québec has the most commercial ties, in addition to having a similar economic structure. In 2010, exports to Ontario accounted for roughly 60% of Québec's interprovincial exports.

— Consequently, a change of 1% in Ontario's real GDP gives rise, on average, to a change of 0.4% in Québec's real GDP.

TABLE D.28

Impact of external shocks on the growth rate of Québec's real GDP

External shocks of 1%	**Maturity**(1) (quarters)	**Impact on Québec's real GDP** (percentage points)
U.S. real GDP	2	0.5
Ontario real GDP	2	0.4

(1) Maturity corresponds to the number of quarters needed to record the greatest impact on Québec's real GDP, presented in the right-hand column.

Sources: Institut de la statistique du Québec, Ontario Ministry of Finance, IHS Global Insight, Statistics Canada, Bloomberg and Ministère des Finances et de l'Économie du Québec.

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[2] Vector autoregression. This econometric technique is used to estimate, on the basis of numerous observations, the extent to which changes in one economic variable affect another economic variable (*impulse response*). The estimates arrived at with this model were made using quarterly data from Statistics Canada's 1993 System of National Accounts (SNA 1993), for the 1981-2010 period.

☐ Sensitivity of own-source revenue to economic fluctuations

In general, the nominal GDP forecast is a very good indicator of growth in own-source revenue given the direct link between tax bases and nominal GDP.

— According to the overall sensitivity analysis, a change of one percentage point in nominal GDP has an impact of about $500 million on the government's own-source revenue.

This sensitivity analysis is based on a revision of each tax base in proportion to the revision to nominal GDP.

— In reality, a change in economic outlook can have a greater impact on some economic variables and a larger impact on certain tax bases.

The following table shows the sensitivity of the main economic variables affecting the tax bases following a change of one percentage point.

TABLE D.29

Sensitivity of own-source revenue to major economic variables

Variables	Growth forecasts for 2014	Impacts for fiscal 2014-2015
Nominal GDP	3.5%	A difference of 1 percentage point changes own-source revenue by roughly $500 million.
– Salaries and wages	3.3%	A difference of 1 percentage point changes personal income tax revenue by roughly $260 million.
– Employment insurance	0.8%	A difference of 1 percentage point changes personal income tax revenue by roughly $5 million.
– Pension income	7.1%	A difference of 1 percentage point changes personal income tax revenue by roughly $40 million.
– Net corporate operating surplus	4.5%	A difference of 1 percentage point changes corporate income tax revenue by almost $30 million.
– Household consumption	3.5%	A difference of 1 percentage point changes QST revenue by roughly $150 million.
– Residential investments	–0.8%	A difference of 1 percentage point changes QST revenue by roughly $20 million.

It should be noted that sensitivity analyses set an average historical relationship between the change in own-source revenue and growth in nominal GDP. Accordingly, they may prove inaccurate for a given year depending on the economic situation and yet not lose their validity.

- For a given year, economic fluctuations may have various impacts on revenue depending on the change in behaviour of economic agents.
- In these situations, the change in own-source revenue is more pronounced than the change in nominal GDP.

☐ Sensitivity of debt service to a change in interest rates and exchange rates

A greater-than-anticipated rise in interest rates of one percentage point over a full year would increase the consolidated interest expenditure by roughly $250 million.

A change in the value of the Canadian dollar compared with other currencies would have no impact on debt service because the government's debt has no foreign currency exposure.

Section E

THE QUÉBEC GOVERNMENT'S DEBT

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1. DEBT

Several concepts of debt are used to measure a government's indebtedness. The following table presents data on the debt according to three concepts, i.e. gross debt, net debt and debt representing accumulated deficits.

TABLE E.1

Debt of the Québec government as at March 31
(millions of dollars)

	2013	2014^{P}	2015^{P}	2016^{P}	2017^{P}	2018^{P}	2019^{P}
GROSS DEBT(1)	**191 756**	**198 448**	**205 596**	**209 942**	**211 628**	**212 949**	**212 848**
As a % of GDP	*53.6*	*54.3*	*54.4*	*53.4*	*52.0*	*50.5*	*48.8*
Less: Financial assets, net of other liabilities	–16 269	–16 320	–14 439	–15 940	–16 362	–17 519	–19 065
NET DEBT	**175 487**	**182 128**	**191 157**	**194 002**	**195 266**	**195 430**	**193 783**
As a % of GDP	*49.0*	*49.8*	*50.5*	*49.4*	*47.9*	*46.3*	*44.4*
Less: Non-financial assets	–57 392	–62 605	–67 880	–72 367	–75 972	–79 071	–80 781
DEBT REPRESENTING ACCUMULATED DEFICITS	**118 095**	**119 523**	**123 277**	**121 635**	**119 294**	**116 359**	**113 002**
As a % of GDP	*33.0*	*32.7*	*32.6*	*31.0*	*29.3*	*27.6*	*25.9*

P: Preliminary results for 2014 and forecasts for subsequent years.

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

1.1 Gross debt

Gross debt represents the amount of debt contracted on financial markets and the net liabilities in respect of the retirement plans and future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2014, the gross debt should reach $198 448 million, i.e. 54.3% of GDP. As of 2015-2016, the ratio of gross debt to GDP should gradually decline to 48.8% as at March 31, 2019.

TABLE E.2

Gross debt as at March 31
(millions of dollars)

	2013	2014^P	2015^P	2016^P	2017^P	2018^P	2019^P
Consolidated direct debt(1)	168 616	175 556	183 229	188 759	192 561	196 962	200 640
Plus: Net retirement plans liability	28 359	28 502	29 273	29 731	29 956	29 811	29 389
Plus: Net employee future benefits liability	19	—	—	—	—	—	—
Less: Generations Fund	–5 238	–5 610	–6 906	–8 548	–10 889	–13 824	–17 181
GROSS DEBT(1)	**191 756**	**198 448**	**205 596**	**209 942**	**211 628**	**212 949**	**212 848**
As a % of GDP	***53.6***	***54.3***	***54.4***	***53.4***	***52.0***	***50.5***	***48.8***

P: Preliminary results for 2014 and forecasts for subsequent years.
(1) The consolidated direct debt and the gross debt exclude pre-financing.

Retirement plans liability

The net retirement plans liability is calculated by subtracting from the retirement plans liability the balance of the Retirement Plans Sinking Fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees.

The retirement plans liability represents the present value of the retirement benefits the government will pay to public and parapublic sector employees, taking into account the conditions of their plans and their years of service. This liability stood at $76 703 million as at March 31, 2013.

The government created the RPSF in 1993. As at March 31, 2013, the book value of the RPSF stood at $48 344 million.

Thus, the net retirement plans liability represented $28 359 million as at March 31, 2013.

Net retirement plans liability as at March 31, 2013
(millions of dollars)

Retirement plans liability	
Government and Public Employees Retirement Plan (RREGOP)	46 344
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	10 706
Other plans[1]	19 653
Subtotal	**76 703**
Less: Retirement Plans Sinking Fund	–48 344
NET RETIREMENT PLANS LIABILITY	**28 359**

(1) The liability for the other plans takes into account the assets of the other plans, including those of the Pension Plan of the Université du Québec.

Employee future benefits liability

The government records in its debt the value of its commitments regarding future benefits programs for its employees, namely, programs for accumulated sick leave and for pensions paid to the survivors of government employees. These programs give rise to long-term obligations whose costs are covered in full by the government.

As at March 31, 2013, the employee future benefits liability stood at $1 262 million.

As at March 31, 2013, the value of the sums accumulated to pay for employee future benefits programs (Accumulated Sick Leave Fund and Survivor's Pension Plan Fund) stood at $1 243 million.

Taking these funds into account, the net employee future benefits liability stood at $19 million as at March 31, 2013.

Net employee future benefits liability as at March 31, 2013
(millions of dollars)

Employee future benefits liability	
Accumulated sick leave	676
Survivor's pension plan	408
Université du Québec programs	178
Subtotal	**1 262**
Less:	
Accumulated Sick Leave Fund	–798
Survivor's Pension Plan Fund	–445
Subtotal	**–1 243**
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**19**

Generations Fund

The Generations Fund was created in June 2006 through the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated solely to repaying the debt.

As at March 31, 2014, the book value of the Generations Fund should stand at $5 610 million.

The sums accumulated in the Generations Fund are expected to reach $17 181 million as at March 31, 2019.

Generations Fund
(millions of dollars)

	2012-2013	2013-2014P	2014-2015P	2015-2016P	2016-2017P	2017-2018P	2018-2019P
Book value, beginning of year	**4 277**	**5 238**	**5 610**	**6 906**	**8 548**	**10 889**	**13 824**
Dedicated revenues							
Water-power royalties							
Hydro-Québec	625	668	661	678	691	708	726
Private producers	92	91	90	92	94	96	98
	717	759	751	770	785	804	824
Indexation of the price of heritage electricity	—	—	71	165	265	370	475
Mining revenues	—	—	—	115	150	240	340
Tax on alcoholic beverages	—	—	100	100	525	525	525
Savings relative to the closure of Gentilly-2	—	—	—	—	—	215	215
Unclaimed property	12	19	9	9	9	9	9
Investment income	232	294	365	483	607	772	969
Total of dedicated revenues	**961**	**1 072**	**1 296**	**1 642**	**2 341**	**2 935**	**3 357**
Deposit from the Territorial Information Fund	—	300	—	—	—	—	—
Total deposits	**961**	**1 372**	**1 296**	**1 642**	**2 341**	**2 935**	**3 357**
Use of the Generations Fund to repay maturing borrowings	—	−1 000	—	—	—	—	—
Book value, end of year	**5 238**	**5 610**	**6 906**	**8 548**	**10 889**	**13 824**	**17 181**

P: Preliminary results for 2013-2014 and forecasts for subsequent years.

❑ Factors responsible for the growth in the gross debt

In 2013-2014, the gross debt is expected to increase by $6 692 million, mainly because of capital investments ($5 213 million) and the budgetary deficit ($2 500 million).

The table on the following page shows in detail the factors responsible for the growth in the government's gross debt since March 31, 2000.

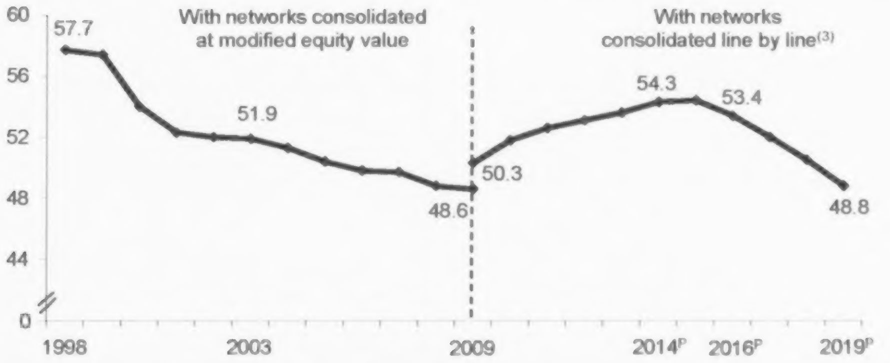
Gross debt burden

Between 1998 and 2009, the government's gross-debt-to-GDP ratio fell significantly. While the gross debt was equivalent to 57.7% of GDP as at March 31, 1998, this ratio stood at 51.9% as at March 31, 2003 and 48.6% as at March 31, 2009. Line-by-line consolidation of the network institutions' financial statements with those of the government raised the gross-debt-to-GDP ratio to 50.3% as at March 31, 2009.

The ratio has risen since 2009 mainly because of the increase in capital investments and the 2008-2009 recession. The gross debt burden is expected to decrease as of 2015-2016.

CHART E.1

Gross debt as at March 31(1),(2)
(as a percentage of GDP)



P: Preliminary results for 2014 and forecasts for subsequent years.

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

(2) The change in the gross-debt-to-GDP ratio includes the historical revisions to GDP data published by Statistics Canada in December 2013.

(3) The gross debt takes into account the debt that the health and social services and the education networks have contracted in their own name. Accordingly, the data as of 2009 are not comparable with those for prior years since they do not include this debt.

1.2 Net debt

Net debt is equal to the Québec government's liabilities less its financial assets. It represents the debt that has funded capital investments and current expenditures. Net debt is obtained by subtracting from the gross debt the government's financial assets, net of other liabilities.

As at March 31, 2014, the net debt should stand at $182 128 million, or 49.8% of GDP. As a proportion of GDP, the net debt will rise to 50.5% as at March 31, 2015, then gradually decrease to 44.4% as at March 31, 2019.

TABLE E.4

Factors responsible for the growth in the net debt
(millions of dollars)

	Debt, beginning of year	Budget deficit	Impact of the closure of Gentilly-2	Net capital investments	Deposits to the Generations Fund	Other	Total change	Debt, end of year	As a % of GDP
2012-2013	167 700	1 600	1 876	4 863	–961	409[1]	7 787	175 487	49.0
2013-2014[P]	175 487	2 500		5 213	–1 072	—	6 641	182 128	49.8
2014-2015[P]	182 128	1 750		5 275	–1 296	3 300[2]	9 029	191 157	50.5
2015-2016[P]	191 157	—		4 487	–1 642	—	2 845	194 002	49.4
2016-2017[P]	194 002	—		3 605	–2 341	—	1 264	195 266	47.9
2017-2018[P]	195 266	—		3 099	–2 935	—	164	195 430	46.3
2018-2019[P]	195 430	—		1 710	–3 357	—	–1 647	193 783	44.4

P: Preliminary results for 2013-2014 and forecasts for subsequent years.

(1) Includes other comprehensive income items of government enterprises and changes stemming from inventories and prepaid expenses that are non-financial assets.

(2) Provision for the impact of the eventual transition of Hydro-Québec to International Financial Reporting Standards. This provision is explained on the next page.

1.3 Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the difference between the Québec government's liabilities and its financial and non-financial assets as a whole. This debt is calculated by subtracting financial assets, net of other liabilities, as well as non-financial assets from the gross debt.

As at March 31, 2014, the debt representing accumulated deficits should amount to $119 523 million, or 32.7% of GDP. As a proportion of GDP, the debt representing accumulated deficits will continue to decline, reaching 25.9% as at March 31, 2019.

TABLE E.5

Factors responsible for the growth in the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budget deficit	Impact of the closure of Gentilly-2	Deposits to the Generations Fund	Other	Total change	Debt, end of year	As a % of GDP
2012-2013	115 220	1 600	1 876	–961	360[1]	2 875	118 095	33.0
2013-2014P	118 095	2 500		–1 072	—	1 428	119 523	32.7
2014-2015P	119 523	1 750		–1 296	3 300	3 754	123 277	32.6
2015-2016P	123 277	—		–1 642	—	–1 642	121 635	31.0
2016-2017P	121 635	—		–2 341	—	–2 341	119 294	29.3
2017-2018P	119 294	—		–2 935	—	–2 935	116 359	27.6
2018-2019P	116 359	—		–3 357	—	–3 357	113 002	25.9

P: Preliminary results for 2013-2014 and forecasts for subsequent years.
(1) Other comprehensive income items of government enterprises.

The debt representing accumulated deficits in 2014-2015 takes into account a provision of $3.3 billion for the impact of the eventual transition of Hydro-Québec to International Financial Reporting Standards (IFRS). In February 2013, the Accounting Standards Board of Canada postponed, for the fourth time, the mandatory changeover to IFRS for corporations like Hydro-Québec that engage in rate-regulated activities. The anticipated date is now January 1, 2015, which would affect the government's 2014-2015 fiscal year.

Based on available information, the impact of Hydro-Québec's changeover to IFRS would be roughly $4 billion. However, it is important to point out that enterprises similar to Hydro-Québec in British Columbia (BC Hydro) and Ontario (Hydro One) have adopted American accounting standards for their rate-regulated activities instead of IFRS.

Given the uncertainty surrounding the final impact of the change in accounting standards for Hydro-Québec, it has been decided to maintain the restatement at $3.3 billion, indicated in the March and November 2012 budgets, but to apply it in 2014-2015. It should be noted that Hydro-Québec's eventual transition to IFRS will have no impact on the government's gross debt.

1.4 Debt reduction objectives

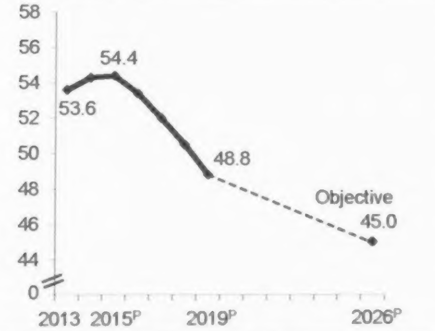
The debt reduction objectives included in the *Act to reduce the debt and establish the Generations Fund* are:

- 45% of GDP for the gross debt as at March 31, 2026;
- 17% of GDP for the debt representing accumulated deficits as at March 31, 2026.

CHART E.2

Gross debt as at March 31

(as a percentage of GDP)



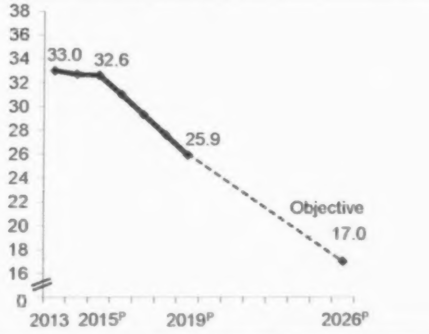
P: Preliminary results for 2014, forecasts for 2015 to 2019 and projections for subsequent years.

Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART E.3

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



P: Preliminary results for 2014, forecasts for 2015 to 2019 and projections for subsequent years.

To achieve the debt reduction objectives, the government announced in the November 2012 budget that it will deposit in the Generations Fund:

- The revenue generated by the indexation of the price of heritage electricity starting in 2014. This will amount to $71 million in 2014-2015, $165 million in 2015-2016, $265 million in 2016-2017, $370 million in 2017-2018 and $475 million in 2018-2019.
- All mining revenues as of 2015-2016. This will amount to $115 million in 2015-2016, $150 million in 2016-2017, $240 million in 2017-2018 and $340 million in 2018-2019.
- The savings, as of 2017-2018, stemming from the closure of the Gentilly-2 nuclear power plant, which will amount to $215 million per year.
- An amount of $100 million per year, as of 2014-2015, generated by the increase in the specific tax on alcoholic beverages.

TABLE E.3

Factors responsible for the growth in the Québec government's gross debt

(millions of dollars)

	Debt, beginning of year	Budget deficit (surplus)	Impact of the closure of Gentilly-2	Investment, loans and advances	Net investment in the networks[1]	Net capital investments[2]	Other factors[3]	Generations Fund[4]	Total change	Debt, end of year	As a % of GDP
With networks consolidated at modified equity value											
2000-2001	116 761	–427		1 701	841	578	1 108		3 801	120 562	52.3
2001-2002	120 562	–22		1 248	934	1 199	–9		3 350	123 912	52.0
2002-2003	123 912	728		1 921	631	1 706	237		5 223	129 135	51.9
2003-2004	129 135	358		1 367	560	1 186	625		4 096	133 231	51.3
2004-2005	133 231	664		1 303	1 486	1 006	–796		3 663	136 894	50.4
2005-2006	136 894	–37		1 488	1 013	1 179	–809		2 834	139 728	49.8
2006-2007	139 728	–109		2 213	1 002	1 177	1 078	–584	4 777	144 505	49.7
2007-2008	144 505	—		2 658	487	1 457	767	–649	4 720	149 225	48.8
2008-2009	149 225	—		966	622	2 448	–28	–719	3 289	152 514	48.6
With networks consolidated line by line[5]											
2009-2010	157 630	3 174		1 746		4 226	–2 733	–725	5 688	163 318	51.8
2010-2011	163 318	3 150		2 507		4 923	298	–760	10 118	173 436	52.6
2011-2012	173 436	2 628		1 861		5 071	1 228	–840	9 948	183 384	53.1
2012-2013	183 384	1 600	1 876	659		4 863	335	–961	8 372	191 756	53.6
2013-2014	191 756	2 500		1 392		5 213	–1 041	–1 372	6 692	198 448	54.3
2014-2015	198 448	1 750		1 427		5 275	–8	–1 296	7 148	205 596	54.4
2015-2016	205 596	—		1 453		4 487	48	–1 642	4 346	209 942	53.4
2016-2017	209 942	—		1 487		3 605	–1 065	–2 341	1 686	211 628	52.0
2017-2018	211 628	—		874		3 099	283	–2 935	1 321	212 949	50.5
2018-2019	212 949	—		860		1 710	686	–3 357	–101	212 848	48.8

(1) The net investment in the networks includes mainly loans by Financement-Québec and the Corporation d'hébergement du Québec to institutions in the health and social services and the education networks. Since 2009-2010, these items have been part of net capital investments.

(2) Investments made under private-public partnership agreements are included in net capital investments.

(3) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

(4) Deposits in the Generations Fund in 2013-2014 include $1 072 million in dedicated revenues and $300 million from the accumulated surplus of the Territorial Information Fund.

(5) The line-by-line consolidation of the financial statements of institutions of the health and social services and the education networks raised the gross debt by $5 116 million as at March 31, 2009. This amount represents the debt contracted by the networks in their own name. The data prior to 2009-2010 could not be restated and are thus not comparable.

The government also announced a reduction in planned capital investments.

As announced in the November 2013 *Economic and Financial Update*, the government will make additional deposits in the Generations Fund as of 2016-2017 to offset the increase in the debt arising from the deficits in 2013-2014 and 2014-2015. These additional amounts will be drawn from the specific tax on alcoholic beverages and will represent additional deposits of $425 million per year.

Owing to the new revenue sources, which are over and above those currently dedicated to the Generations Fund, the Fund should reach $17.2 billion as at March 31, 2019.

1.5 Public sector debt

Public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, municipalities, universities other than the Université du Québec and its constituents, and other government enterprises. This debt has served in particular to fund public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

As at March 31, 2013, Québec's public sector debt stood at $256 425 million, or 71.7% of GDP. These figures must be seen in perspective for they do not take into account the economic value of certain assets held by the government, such as Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

TABLE E.6

Public sector debt as at March 31
(millions of dollars)

	2010	2011	2012	2013
Government's gross debt(1)	163 318	173 436	183 384	191 756
Hydro-Québec	36 385	37 723	38 514	39 631
Municipalities(2)	19 538	20 307	20 719	21 820
Universities other than the Université du Québec and its constituents(3)	1 930	1 925	1 797	1 739
Other government enterprises(4)	697	1 363	1 363	1 479
PUBLIC SECTOR DEBT	**221 868**	**234 754**	**245 777**	**256 425**
As a % of GDP	***70.3***	***71.2***	***71.2***	***71.7***

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

(2) These amounts correspond to the long-term debt contracted by municipalities in their own name. Part of this debt is subsidized by the government ($3 899 million as at March 31, 2013).

(3) These amounts correspond to the debt contracted by universities other than the Université du Québec and its constituents in their own name. Part of this debt is subsidized by the government ($65 million as at March 31, 2013).

(4) These amounts correspond to the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity.

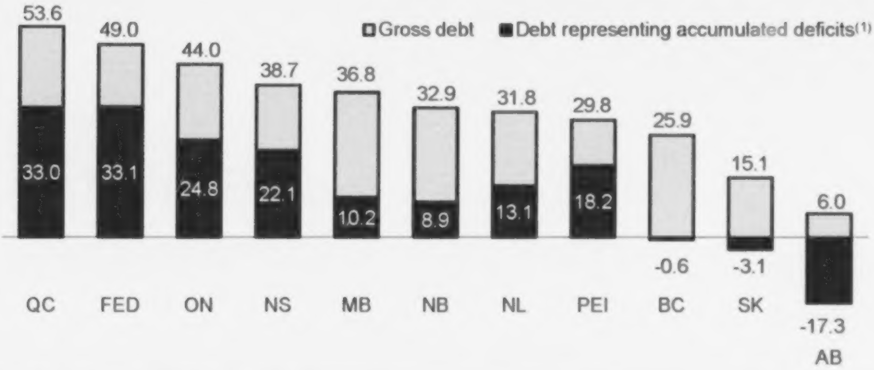
1.6 Comparison of the debt of governments in Canada

Whether on the basis of gross debt or debt representing accumulated deficits, as a percentage of GDP, Québec is the most heavily indebted province.

As at March 31, 2013, the ratio of gross debt to GDP was 53.6% in Québec compared with 44.0% in Ontario, the second most indebted province, and 38.7% in Nova Scotia, which ranks third.

CHART E.4

Gross debt and debt representing accumulated deficits as at March 31, 2013
(as a percentage of GDP)



(1) A negative entry means that the government has accumulated surpluses.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

The table on the following page shows the debt of the federal government and each province as at March 31, 2013. The boxes indicate the debt concept used by each government in its budget documents to measure its debt level. Some governments use more than one concept.

Contrary to the net debt and debt representing accumulated deficits, gross debt cannot be observed directly in the public accounts of the other governments in Canada. However, the public accounts show the components of gross debt, i.e. the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability. Therefore, it is possible to calculate the level of the gross debt according to the concept used by Québec.

2. FINANCING AND DEBT MANAGEMENT

2.1 Financing program

The financing program for 2013-2014 should amount to $19 354 million. This is an increase of $3 892 million compared with what was forecast in the November 2013 *Update on Québec's Economic and Financial Situation*. This increase is mainly attributable to pre-financing of $4 421 million. These borrowings reduce by an equivalent amount the projected financing program for 2014-2015.

TABLE E.8

The government's financing program in 2013-2014[P]

(millions of dollars)

	November 2013 Update	Revisions	Revised program
GENERAL FUND			
Net financial requirements (surplus)(1),(2)	2 669	–33	2 636
Repayment of borrowings	4 641	103	4 744
Use of the Generations Fund to repay maturing borrowings	–1 000	—	–1 000
Change in cash position(3)	–3 485	—	–3 485
Deposits to the Retirement Plans Sinking Fund	500	500	1 000
Transactions under the credit policy(4)	–84	–800	–884
Additional contributions to the Sinking Fund for borrowings	3 538	—	3 538
Subtotal	**6 779**	**–230**	**6 549**
Pre-financing	—	4 421	4 421
GENERAL FUND	**6 779**	**4 191**	**10 970**
FINANCING FUND	**7 683**	**–299**	**7 384**
Subtotal – General fund and Financing Fund	**14 462**	**3 892**	**18 354**
FINANCEMENT-QUÉBEC	**1 000**	**—**	**1 000**
TOTAL	**15 462**	**3 892**	**19 354**
Including: repayments of borrowings(5)	9 615	103	9 718

P: Preliminary results based on borrowings contracted or negotiated as at February 12, 2014.

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

(1) These amounts exclude the net financial requirements of consolidated entities funded through the financing program of the Financing Fund.

(2) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.

(3) Corresponds to pre-financing made in 2012-2013.

(4) Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts because of movements in exchange rates. These amounts have no effect on the debt.

(5) Includes repayments of borrowings of the general fund ($4 744 million), the Financing Fund ($1 252 million) and Financement-Québec ($3 722 million).

The financing program should amount to $15 379 million in 2014-2015, $16 624 million in 2015-2016 and $19 166 million in 2016-2017.

TABLE E.9

The government's financing program in 2014-2015, 2015-2016 and 2016-2017
(millions of dollars)

	2014-2015^F	2015-2016^F	2016-2017^F
GENERAL FUND			
Net financial requirements(1),(2)	2 649	1 310	393
Repayments of borrowings	7 597	7 059	10 679
Change in cash position(3)	–4 421	—	—
GENERAL FUND	**5 825**	**8 369**	**11 072**
FINANCING FUND	**8 554**	**7 255**	**7 094**
Subtotal – General fund and Financing Fund	**14 379**	**15 624**	**18 166**
FINANCEMENT-QUÉBEC	**1 000**	**1 000**	**1 000**
TOTAL	**15 379**	**16 624**	**19 166**
Including: repayments of borrowings(4)	12 261	10 144	14 995

F: Forecasts.

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

(1) These amounts exclude the net financial requirements of consolidated entities funded through the financing program of the Financing Fund.

(2) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.

(3) Corresponds to pre-financing made in 2013-2014.

(4) Includes repayments of borrowings of the general fund ($7 597 million in 2014-2015, $7 059 million in 2015-2016 and $10 679 million in 2016-2017), the Financing Fund ($1 153 million in 2014-2015, $1 205 million in 2015-2016 and $1 208 million in 2016-2017) and Financement-Québec ($3 511 million in 2014-2015, $1 880 million in 2015-2016 and $3 108 million in 2016-2017).

2.2 Financing strategy

The government aims to borrow at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

2.2.1 Diversification by market

Financing transactions are carried out regularly on most markets, i.e. in Canada, the United States, Europe and Asia.

Over the past 10 years, 16.8% of borrowings were contracted in foreign currencies. Nonetheless, the government keeps no exposure of its gross debt to these currencies (see section 2.6).

In 2013-2014, the government carried out 16.4% of its borrowings on foreign markets, i.e.:

— a borrowing of 65 million euros (CAN$88 million) in June 2013;

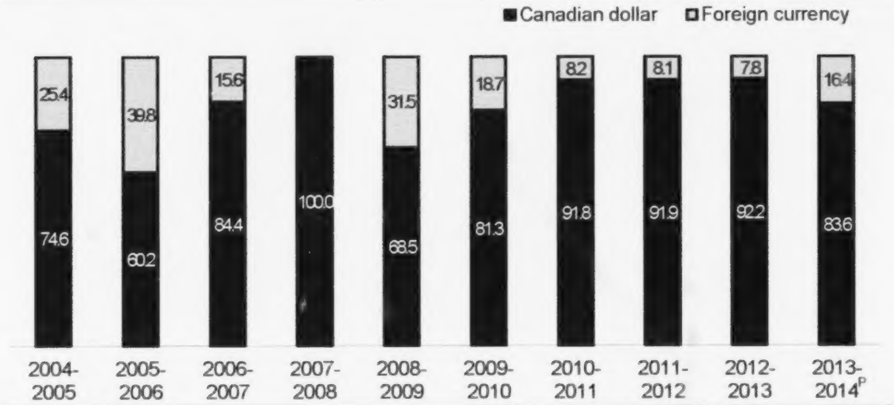
— a borrowing of 1 000 million euros (CAN$1 358 million) in July 2013;

— a borrowing of 1 000 million euros (CAN$1 485 million) in January 2014;

— a borrowing of 200 million Swiss francs (CAN$244 million) in February 2014.

CHART E.5

Borrowings by currency(1)
(per cent)



P: Preliminary results based on borrowings contracted or negotiated as at February 12, 2014.
(1) Borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

2.2.2 Diversification by instrument

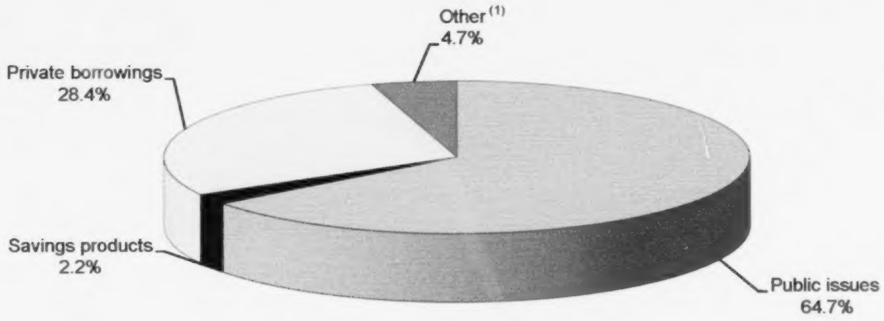
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of public bond issues and private borrowings.

In 2013-2014, public issues represent 64.7% of instruments used.

CHART E.6

Long-term borrowings contracted in 2013-2014^{P}
(per cent)



P: Preliminary results based on borrowings contracted or negotiated as at February 12, 2014.
(1) Business Assistance – Immigrant Investor Program.

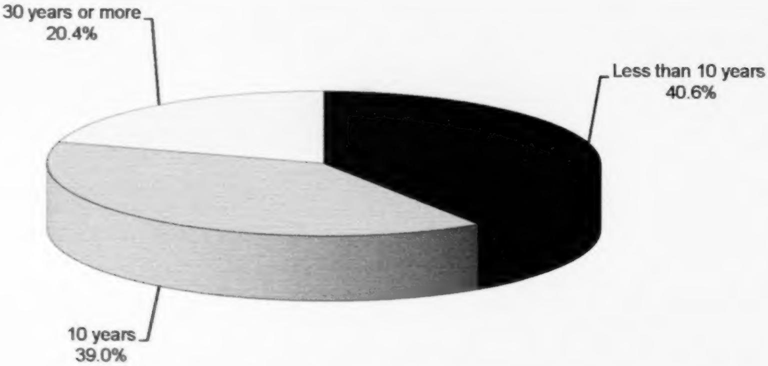
2.2.3 Diversification by maturity

Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and ensure the government's regular presence on capital markets.

In the case of borrowings contracted in 2013-2014, 40.6% had a maturity of less than 10 years, 39.0% a maturity of 10 years and 20.4% a maturity of 30 years or more.

CHART E.7

Long-term borrowings contracted in 2013-2014^{P} by maturity
(per cent)

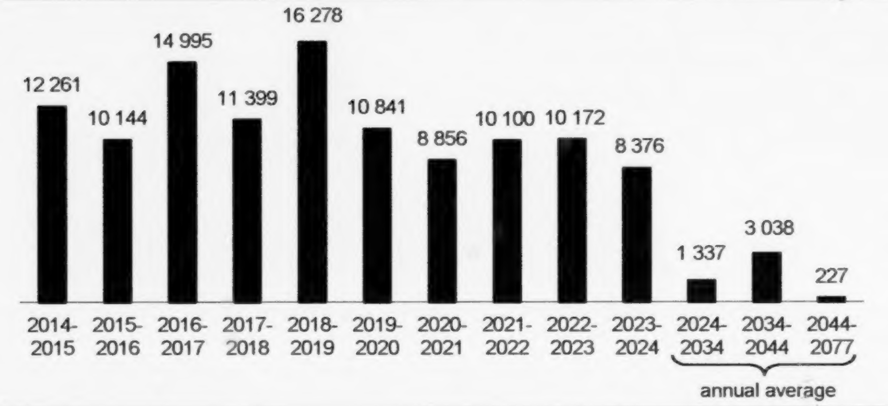


P: Preliminary results based on borrowings contracted or negotiated as at February 12, 2014.

This diversification by maturity is reflected on the maturity of the debt shown in the following chart. As at March 31, 2014, the average maturity of the debt should be about 11 years.

CHART E.8

Maturity of the long-term debt as at March 31, 2014P
(millions of dollars)



P: Preliminary results.
Note: Direct debt of the general fund, debt contracted to make advances to the Financing Fund and debt of Financement-Québec.

2.3 Increase in the government's prudential liquidity

As indicated in the March 2012 budget, the Ministère des Finances et de l'Économie implemented in 2012-2013 a policy aimed at increasing the level of the government's prudential liquidity over a two-year period (2012-2013 and 2013-2014). These liquid assets will be available for use in the event of major turbulence on financial markets.

To date, $7.4 billion has been borrowed and deposited in the Sinking Fund for government borrowings. These sums are invested in very liquid government securities, such as federal Treasury bills. This will make it possible, in the event of major financial market turbulence where it is difficult to contract short- or long-term borrowings, to sell these securities and quickly recover liquidities. These liquidities will then be used to buy short-term securities issued by the Québec government, thus enabling it to conduct its financial transactions. Once the turbulence is over, the Sinking Fund for government borrowings may again buy very liquid securities.

Since the sums borrowed have been deposited in the Sinking Fund for government borrowings, there is no impact on the government's gross debt. This is because the value of a borrowings sinking fund is subtracted from the debt in accordance with accounting standards.

The government's prudential liquidities are equivalent to close to half of the annual financing requirements expected over the coming years.

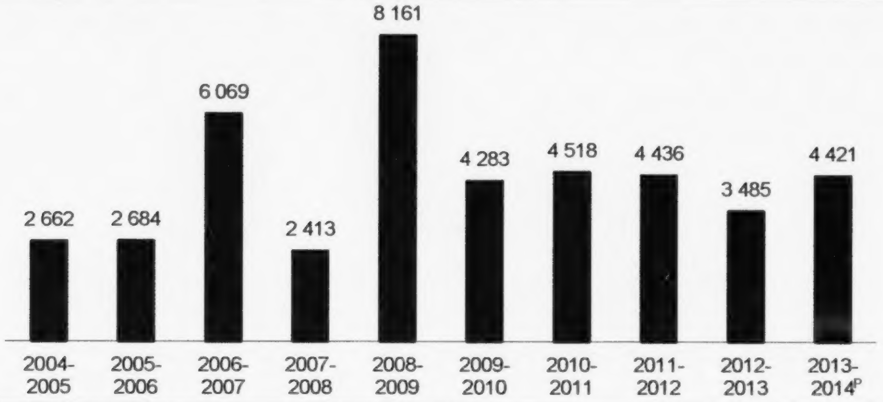
2.4 Pre-financing

The government carries out pre-financing to take advantage of favourable market conditions. These are borrowings that would normally be contracted during the subsequent fiscal year.

In 2013-2014, the government contracted pre-financing of $4 421 million, which corresponds to the average of the past 10 years, i.e. $4 313 million a year.

CHART E.9

Pre-financing
(millions of dollars)



P: Preliminary results.

TABLE E.7

Debt as at March 31, 2013 according to various concepts

(millions of dollars)

	QC	FED	ON	NS	MB	NB	NL	PEI	BC	SK	AB
Consolidated direct debt	**168 616**	**673 046**	**292 599**	**12 869**	**19 155**	**10 177**	**5 148**	**1 688**	$\boxed{55\ 061}$	$\boxed{5\ 013}$	**7 752**
Net retirement plans liability	28 359	151 667	–6 352	230	1 828	–150	3 270	–86	165	6 774	10 852
Net employee future benefits liability	19	67 301	10 714	1 774	434	347	2 323	52	1 760	—	—
Generations Fund	–5 238										
Gross debt	$\boxed{191\ 756}$	**892 014**	**296 961**	**14 873**	**21 417**	**10 374**	**10 741**	**1 654**	**56 986**	**11 787**	**18 604**
As a % of GDP	*53.6*	*49.0*	*44.0*	*38.7*	*36.8*	*32.9*	*31.8*	*29.8*	*25.9*	*15.1*	*6.0*
Less: Financial assets, net of other liabilities	–16 269	–220 651	–44 873	–919	–5 524	680	–2 393	386	–18 850	–6 678	–30 796
Net debt[1]	$\boxed{175\ 487}$	**671 363**	$\boxed{252\ 088}$	$\boxed{13\ 954}$	$\boxed{15\ 893}$	$\boxed{11\ 054}$	$\boxed{8\ 348}$	**2 040**	**38 136**	**5 109**	$\boxed{-12\ 192}$
As a % of GDP	*49.0*	*36.9*	*37.4*	*36.3*	*27.3*	*35.0*	*24.7*	*36.8*	*17.3*	*6.6*	*–3.9*
Less: Non-financial assets	–57 392	–68 922	–84 956	–5 472	–9 957	–8 258	–3 916	–1 031	–39 521	–7 558	–41 780
Debt representing accumulated deficits[1]	$\boxed{118\ 095}$	$\boxed{602\ 441}$	$\boxed{167\ 132}$	**8 482**	**5 936**	**2 796**	**4 432**	**1 009**	**–1 385**	**–2 449**	$\boxed{-53\ 972}$
As a % of GDP	*33.0*	*33.1*	*24.8*	*22.1*	*10.2*	*8.9*	*13.1*	*18.2*	*–0.6*	*–3.1*	*–17.3*

Note: The boxes indicate the debt concept(s) used in the budget papers of the government concerned.

(1) A negative entry means that the government has net assets or accumulated surpluses.

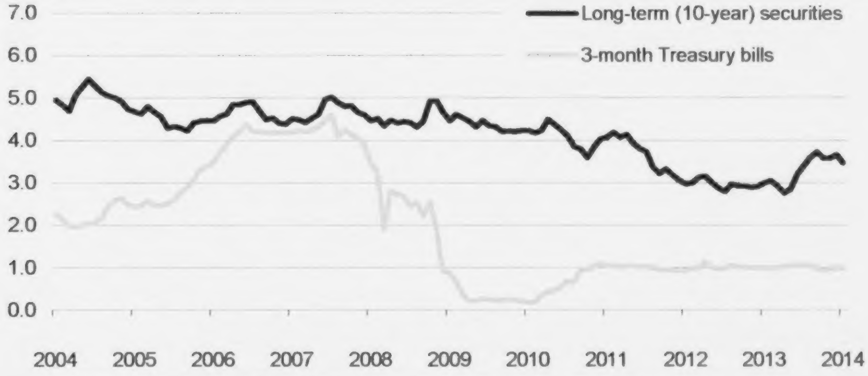
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

2.5 Yield

The yield on the Québec government's long-term securities is currently about 3.5%, while that on short-term securities is roughly 1.0%.

CHART E.10

Yield on Québec securities
(per cent)

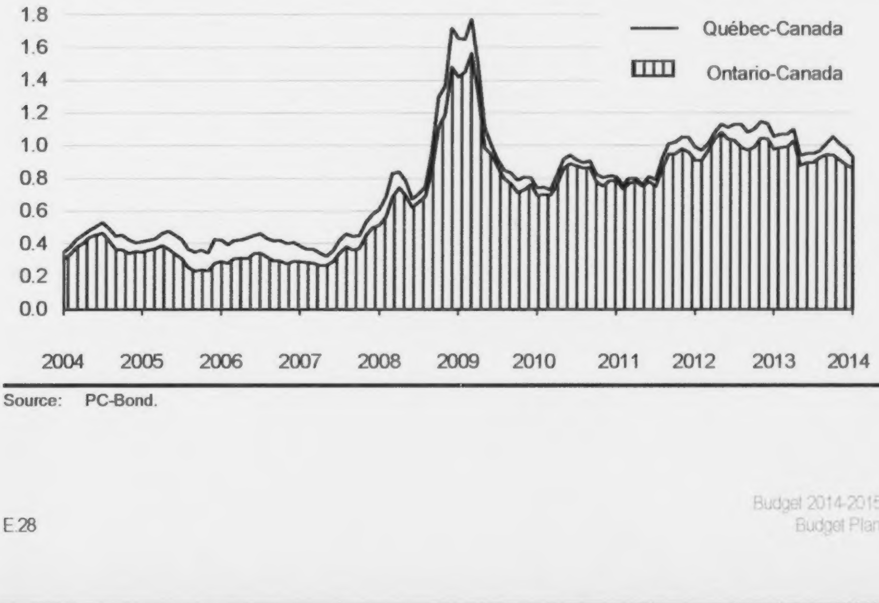


Sources: PC-Bond and Ministère des Finances et de l'Économie du Québec.

In addition, the substantial increase in the spread between the yield on Québec and federal government securities, observed starting in the summer of 2008 during the financial crisis, has narrowed considerably since then. However, the level of the spread has not returned to the levels observed prior to 2008. The same situation has also been observed in the case of the other provinces.

CHART E.11

Yield spread on long-term (10-year) securities
(percentage points)



Source: PC-Bond.

2.6 Debt management

The government's debt management strategy aims to minimize the cost of the debt while limiting the risks related to fluctuations in foreign exchange and interest rates.

The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

☐ Structure of the debt by currency

As at March 31, 2014, the proportion of the government's gross debt in Canadian dollars, after taking into account interest rate and currency swap agreements, should be 100%. This proportion was also 100% as at March 31, 2013.

☐ Structure of the debt by interest rate

The government keeps part of its debt at variable rates and part at fixed rates.

After interest rate and currency swap agreements are taken into account, the proportion of the gross debt at variable rates should be 12.4% as at March 31, 2014. This proportion was 12.8% as at March 31, 2013.

2.7 Borrowings contracted

TABLE E.10

Québec government
Summary of long-term borrowings[1] in 2013-2014P

Currencies	$ million	%
CANADIAN DOLLAR		
Public issues	9 446	48.8
Private borrowings	5 404	27.9
Savings products	426	2.2
Business Assistance – Immigrant Investor Program	903	4.7
Subtotal	**16 179**	**83.6**
OTHER CURRENCIES		
Euro	2 931	15.1
Swiss franc	244	1.3
Subtotal	**3 175**	**16.4**
TOTAL	**19 354**	**100.0**

P: Preliminary results based on borrowings contracted or negotiated as at February 12, 2014.

(1) The amounts include the borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

TABLE E.11

Québec government
Borrowings contracted in 2013-2014P for the general fund

Amount received in Canadian dollars(1)	Face value in foreign currency	Interest rate(2)	Date of issue	Date of maturity	Price to investor	Yield to investor(3)
(millions)		(%)			($)	(%)
303	—	4.50	April 19	2017-12-01	112.199	1.739
1 052(4)	—	Variable(5)	April 23	2016-10-23	100.000	Variable
358(4)	—	Variable(5)	April 26	2016-10-23	100.000	Variable
463	—	3.50	April 30	2045-12-01	98.353	3.586
497	—	3.50	May 3	2045-12-01	99.420	3.530
481	—	3.50	June 7	2045-12-01	96.109	3.707
88(4)	65 euros	2.644(6)	June 17	2033-06-17	100.000	2.644(7)
556	—	4.50	June 17	2018-12-01	111.203	2.303
607	—	5.00	June 19	2041-12-01	121.390	3.768
460	—	3.50	July 5	2045-12-01	91.984	3.940
1 358	1 000 euros	2.25(6)	July 17	2023-07-17	99.514	2.305(7)
386	—	3.50	September 4	2045-12-01	87.245	4.228
502	—	3.75	January 13	2024-09-01	100.337	3.711
347	—	3.50	January 14	2045-12-01	87.872	4.193
1 485	1 000 euros	2.375(6)	January 22	2024-01-22	99.045	2.484(7)
244	200 CHF	1.50(6)	February 5	2024-02-05	99.426	1.563(7)
454	—	3.50	February 10	2045-12-01	90.758	4.017
426(8)	—	Various	Various	Various	Various	Various
903(9)	—	Zero coupon	Various	Various	Various	Various
10 970						

P: Preliminary results based on borrowings contracted or negotiated as at February 12, 2014.

(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

(2) Interest payable semi-annually except if another frequency is indicated in a note.

(3) Yield to investor is determined on the basis of interest payable semi-annually except if another frequency is indicated in a note.

(4) Private borrowings

(5) Interest payable quarterly.

(6) Interest payable annually.

(7) Yield to investor is determined on the basis of interest payable annually.

(8) Savings products issued by Épargne Placements Québec.

(9) Business Assistance - Immigrant Investor Program.

TABLE E.12

Québec government
Borrowings contracted in 2013-2014^{P} for the Financing Fund

Amount received in Canadian dollars(1)	Face value in foreign currency	Interest rate(2)	Date of issue	Date of maturity	Price to investor	Yield to investor(3)
(millions)		(%)			($)	(%)
258	—	4.50	April 19	2017-12-01	112.199	1.739
29	—	3.50	April 30	2045-12-01	98.353	3.586
512	—	3.00	May 7	2023-09-01	102.466	2.724
506	—	3.00	May 21	2023-09-01	101.121	2.873
499	—	3.00	June 3	2023-09-01	99.892	3.012
494	—	3.00	June 21	2023-09-01	98.844	3.133
480	—	3.00	August 12	2023-09-01	96.071	3.466
50	—	3.50	September 4	2045-12-01	87.245	4.228
471	—	3.00	September 25	2023-09-01	94.128	3.712
500	—	3.75	December 18	2024-09-01	99.926	3.758
499	—	3.75	December 18	2024-09-01	99.751	3.778
2 994	—	Variable(4)	December 19	2018-12-19	100.000	Variable
92	—	3.50	January 14	2045-12-01	87.872	4.193
7 384						

P: Preliminary results based on borrowings contracted or negotiated as at February 12, 2014.

(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

(2) Interest payable semi-annually except if another frequency is indicated in a note.

(3) Yield to investor is determined on the basis of interest payable semi-annually.

(4) Interest payable quarterly.

TABLE E.13

Québec government
Borrowings contracted in 2013-2014^{P} by Financement-Québec

Amount received in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
1 000[4]	—	Variable[5]	October 29	2019-05-29	100.000	Variable
1 000						

P: Preliminary results based on borrowings contracted or negotiated as at February 12, 2014.
(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
(2) Interest payable semi-annually except if another frequency is indicated in a note.
(3) Yield to investor is determined on the basis of interest payable semi-annually.
(4) Private borrowings.
(5) Interest payable quarterly.

TABLE E.14

Borrowings contracted in 2013 by Hydro-Québec

Amount received in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
8	—	Zero coupon	April 25	2022-04-15	77.165	2.929
601	—	5.00	July 19	2050-02-15	120.133	3.954
1 000	—	Variable[4]	September 3	2018-09-03	100.000	Variable
582	—	5.00	October 31	2050-02-15	116.386	4.125
2 191						

Note: Borrowings contracted from January 1 to December 31, 2013.

(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

(2) Interest payable semi-annually except if another frequency is indicated in a note.

(3) Yield to investor is established on the basis of interest payable semi-annually.

(4) Interest payable quarterly.

3. INFORMATION ON THE RETIREMENT PLANS AND ON FUNDS DEPOSITED BY THE MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE WITH THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

3.1 Retirement plans

The Québec government participates financially in the retirement plans of its employees. These plans had 577 875 active participants and 326 755 beneficiaries as at December 31, 2012.

TABLE E.15

Retirement plans of public and parapublic sector employees as at December 31, 2012

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	530 000	223 702
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	28 850	26 376
Other plans:		
— Teachers Pension Plan (TPP)(1) and Pension Plan of Certain Teachers (PPCT)(1)	97	45 143
— Civil Service Superannuation Plan (CSSP)(1)	35	20 526
— Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 850	4 901
— Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 600	1 689
— Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	273	357
— Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)(2)	200	149
— Pension Plan of the Members of the National Assembly (PPMNA)	120	411
— Pension Plan of the Université du Québec (PPUQ)	8 850	3 501
Total for other plans	19 025	76 677
TOTAL	**577 875**	**326 755**

(1) These plans have not accepted any new participants since July 1, 1973.
(2) This plan has not accepted any new participants since it came into effect on January 1, 1992.
Source: 2012-2013 Public Accounts.

❑ Summary description of the retirement plans

The retirement plans of public and parapublic sector employees are defined benefit retirement plans. Benefits are calculated on the basis of participants' average income for the best paid years (generally five) and their number of years of service. The pension usually represents 2% of an employee's average income per year of service. Benefits are partially indexed to inflation.

RREGOP and the PPMP, which account for nearly 97% of active participants, are cost-sharing plans: the government is responsible for paying 50% of the benefits, and the participants are responsible for paying the other 50%.[1]

Most of the other retirement plans are cost-balance plans. The government covers the cost of these plans, net of contributions paid by participants.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans.[2]

TABLE E.16

Change in the employee contribution rate of certain retirement plans
(per cent)

	RREGOP(1)	PPMP(2)	SPMSQ(3)	PPPOCS(4)
2004	5.35	4.50	8 / 6.2 / 8	4.0
2005	7.06	7.78	8 / 6.2 / 8	4.0
2006	7.06	7.78	8 / 6.2 / 8	4.0
2007	7.06	7.78	8 / 6.2 / 8	4.0
2008	8.19	10.54	8 / 6.2 / 8	4.0
2009	8.19	10.54	8 / 6.2 / 8	4.0
2010	8.19	10.54	8 / 6.2 / 8	4.0
2011	8.69	11.54	8 / 6.2 / 8	4.0
2012	8.94	12.30	8 / 6.2 / 8	4.0
2013	9.18	12.30	8 / 6.2 / 8	6.5
2014	9.84	14.38	8 / 6.2 / 8	8.3

(1) For 2004 to 2012, rate applicable to the excess of 35% of maximum pensionable earnings (MPE), which is determined by the Régie des rentes du Québec (RRQ). The contribution formula as of 2012 was changed at the time of the collective agreements' renewal. For 2012, the rate applies to the excess of 33% of the MPE. For 2013, the rate applies to the excess of 31% of the MPE. For 2014, the rate applies to the excess of 29% of the MPE. In 2014, the MPE is $52 500.

(2) Rate applicable to the excess of 35% of the MPE.

(3) Rate applicable up to the annual basic exemption of the RRQ ($3 500) / rate applicable to the excess up to the amount of the MPE / rate applicable to the excess of the MPE.

(4) Rate applicable to the excess of 25% of the employee's salary or of 25% of the MPE if it is lower.

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[1] This cost-sharing formula has been in effect since July 1, 1982. Previously, the government was responsible for payment of 7/12 of the benefits (58.3%).

[2] Except for the Pension Plan of the Université du Québec (PPUQ).

☐ Recent changes

In 2010, to retain qualified workers and delay their retirement, the government modified RREGOP and the PPMP to enable participants to accumulate up to 38 years of service. This change, which was agreed upon during the latest renewal of the collective agreements with government employees, is aimed at ensuring that employees nearing the end of their career stay longer in the labour market, thus facilitating the transfer of expertise.

The PPMP was also modified with the adoption of Bill 58 by the National Assembly in 2012. The changes made to this plan were the product of consultations with participant representatives and included several amendments that will foster the financial health of the PPMP. In particular, the pension eligibility criteria were tightened. Since January 1, 2013, new participants must complete an additional five-year period of membership in the plan for their retirement benefit to be calculated in accordance with the provisions of the PPMP. In addition, the reduction of the benefit for early retirement was increased.

3.1.1 **Retirement plans liability**

In its financial statements, the government discloses the present value of the retirement benefits it will pay to its employees, taking into account the conditions governing their plans as well as their years of service. This value is called the retirement plans liability. It does not take into account the sums accumulated to pay retirement benefits, particularly the Retirement Plans Sinking Fund (RPSF), which will be discussed later on.

The actuarial valuations of the liability of the various retirement plans are carried out by CARRA,[3] following the rules of the Canadian Institute of Actuaries (CIA) and the Canadian Institute of Chartered Accountants (CICA) for the public sector.

As at March 31, 2013, the liability for the retirement plans of public and parapublic sector employees amounted to $76 703 million (net of the plans' assets). This amount is recognized in the government's gross debt.

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[3] Except in the case of the PPUQ, whose liability valuation is performed by a private-sector actuarial firm.

TABLE E.17

Retirement plans liability

(millions of dollars)

	March 31, 2013
Government and Public Employees Retirement Plan (RREGOP)	46 344
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	10 706
Other plans:	
— Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	11 546
— Civil Service Superannuation Plan (CSSP)	3 848
— Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 681
— Pension Plan of the Université du Québec (PPUQ)	2 967
— Pension Plan of Peace Officers in Correctional Services (PPPOCS)	842
— Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	538
— Pension Plan of the Members of the National Assembly (PPMNA)	186
— Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	133
— Plans' assets(1)	–4 088
Total for other plans	19 653
RETIREMENT PLANS LIABILITY	**76 703**

(1) Plans' assets, particularly those of the PPFEQ, SPMSQ and PPUQ.

❑ Annual retirement plans expenditure

Every year, the government also records its expenditure as an employer with regard to the retirement plans. This expenditure comprises two components:

- the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, net of contributions paid, i.e. $1 900 million in 2012-2013;
- the amortization of revisions to the government's actuarial obligations arising from previous updates of actuarial valuations, for a cost of $619 million in 2012-2013.

In 2012-2013, government spending in respect of the retirement plans amounted to $2 519 million.

TABLE E.18

Spending in respect of the retirement plans
(millions of dollars)

	2012-2013
Net cost of vested benefits	1 900
Amortization of revisions stemming from actuarial valuations(1)	619
SPENDING IN RESPECT OF THE RETIREMENT PLANS	**2 519**

(1) Including the impact of amendments to the *Act respecting the Pension Plan of Management Personnel and other legislative provisions* (S.Q., 2012, chapter 6) that changed the plan qualification period for new participants after December 31, 2012, increasing it from 24 to 84 months, as well as certain provisions relating to retirement eligibility criteria, return to work and the age limit for contributing to the plan.

3.1.2 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund (RPSF) is an asset that was created in 1993 for the purpose of paying the retirement benefits of public and parapublic sector employees.

As at March 31, 2013, the book value of the RPSF stood at $48 344 million.

TABLE E.19

Change in the Retirement Plans Sinking Fund (RPSF)
(millions of dollars)

	Book value, beginning of year	Deposits	Imputed investment income	Book value, end of year
1993-1994	—	850	4	854
1994-1995	854	—	–5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095(1)	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007	22 437(1)	3 000	1 440	26 877
2007-2008	26 877	3 000	1 887	31 764
2008-2009	31 749(2)	2 100	2 176	36 025
2009-2010	36 025	—	2 175	38 200
2010-2011	38 200	2 000	2 065	42 265
2011-2012	42 265	1 000	2 087	45 352
2012-2013	45 352	1 000	1 992	48 344

(1) These amounts take into account restatements arising from the government accounting reforms of 1997-1998 and 2006-2007.

(2) This amount takes into account an adjustment arising from consideration of the expected average remaining service life (EARSL) of participants in the PPMP.

The information on the RPSF shown in the preceding table is based on the government's accounting policies, which are in full compliance with generally accepted accounting principles (GAAP) for Canada's public sector.

The book value of the RPSF as at March 31, 2013 was higher than its market value. As a result of the accounting policies, the difference between these two items will be fully amortized in the coming years. In addition, the financial impact of gradually amortizing the difference is fully incorporated into the government's financial framework over the entire planning horizon. Section 3.4 describes these items in greater detail.

The government's accounting policies apply when the return on the RPSF is higher than anticipated as well as when it is lower. As shown by the following table, the book value of the RPSF has been lower than its market value 8 times in the past 19 years.

TABLE E.20

Book value and market value of the Retirement Plans Sinking Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
1994-1995	849	831	18
1995-1996	923	954	–31
1996-1997	1 014	1 095	–81
1997-1998	1 179	1 321	–142
1998-1999	2 209	2 356	–147
1999-2000	5 040	5 703	–663
2000-2001	7 059	7 052	7
2001-2002	10 199	9 522	677
2002-2003	11 840	9 240	2 600
2003-2004	14 204	12 886	1 318
2004-2005	18 333	17 362	971
2005-2006	22 563	23 042	–479
2006-2007	26 877	28 859	–1 982
2007-2008	31 764	32 024	–260
2008-2009	36 025	25 535	10 490
2009-2010	38 200	29 559	8 641
2010-2011	42 265	35 427	6 838
2011-2012	45 352	38 222	7 130
2012-2013	48 344	42 562	5 782

☐ Amounts deposited in the RPSF have no impact on the gross debt

The government issues bonds on financial markets in order to make deposits in the RPSF. Nevertheless, the amounts deposited in the RPSF do not affect the government's gross debt.

Even though the amount of borrowings contracted to make deposits increases the direct debt, these deposits in turn reduce the net retirement plans liability by the same amount. Therefore, the net impact on the gross debt is nil.

TABLE E.21

Illustration of the impact on the government's gross debt of borrowing $1 billion on financial markets in order to deposit it in the RPSF(1)
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	168 616	169 616	1 000
	Retirement plans liability	76 703	76 703	—
	Less: Book value of the RPSF	–48 344	–49 344	–1 000
(B)	Net retirement plans liability	28 359	27 359	–1 000
(C)	Net employee future benefits liability	19	19	—
(D)	Less: Generations Fund	–5 238	–5 238	—
(E)	**GROSS DEBT (E = A + B + C + D)**	**191 756**	**191 756**	**—**

(1) Illustration based on results as at March 31, 2013.

❑ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. The rates of return on funds managed by the Caisse de dépôt et placement du Québec (the Caisse) are generally higher than interest rates on Québec government bonds issued to finance deposits in the RPSF. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

Since the RPSF was created, the return obtained by the Caisse has been higher than the cost of new borrowings by the government 14 years out of 19.

TABLE E.22

Comparison of the RPSF's annual return and the Québec government's borrowing costs
(per cent)

	Return of the RPSF [1]	**Cost of new borrowings** [2]	**Difference** (percentage points)
1994-1995	–3.3 [3]	5.9	–9.2
1995-1996	17.0	5.3	11.7
1996-1997	16.1	6.3	9.8
1997-1998	13.4	5.7	7.7
1998-1999	10.4	5.8	4.6
1999-2000	15.3	7.2	8.1
2000-2001	7.2	6.2	1.0
2001-2002	–4.7	5.5	–10.2
2002-2003	–8.5	4.7	–13.2
2003-2004	14.9	4.6	10.3
2004-2005	11.4	4.4	7.0
2005-2006	13.5	4.4	9.1
2006-2007	13.5	4.4	9.1
2007-2008	5.2	4.8	0.4
2008-2009	–25.6	4.2	–29.8
2009-2010	10.7	4.6	6.1
2010-2011	13.4	4.4	9.0
2011-2012	3.5	4.0	–0.5
2012-2013	9.4	3.6	5.8

(1) On a calendar year basis.
(2) On a fiscal year basis.
(3) From February to December 1994.

❑ A flexible deposit policy

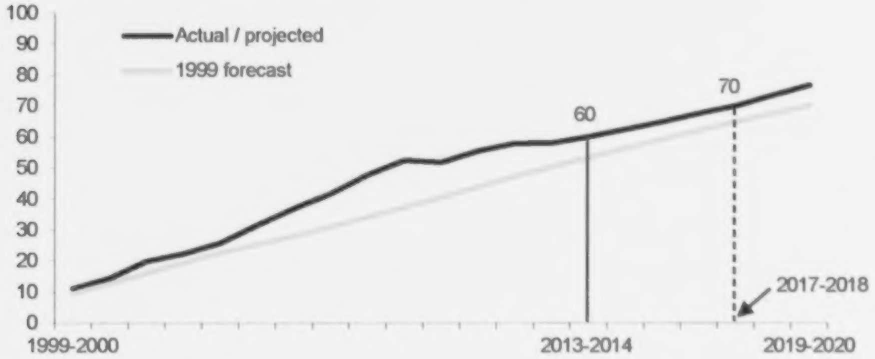
In December 1999, as part of an agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the amounts accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the flexibility needed to apply this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues. For example, the government did not make any deposits in 2009-2010, but deposited $2 billion in 2010-2011 and $1 billion in each subsequent year.

As at March 31, 2014, the RPSF's book value should represent 60% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees. If deposits of $1 billion per year were made in the RPSF, the objective of 70% should be attained two years earlier than anticipated, i.e. in 2017-2018.

CHART E.12

RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees
(per cent)



3.2 Generations Fund

The following table shows the book and market values of the Generations Fund since its creation.

TABLE E.23

Book value and market value of the Generations Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
2006-2007[1]	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011	3 437	3 524	–87
2011-2012	4 277	4 375	–98
2012-2013	5 238	5 550	–312

(1) The first deposit in the Generations Fund was made on January 31, 2007.

Since the first deposit was made in the Generations Fund in January 2007, the return has been higher than or equivalent to the cost of new borrowings by the government five years out of six.

TABLE E.24

Comparison of the Generations Fund's annual return and the Québec government's borrowing costs
(per cent)

	Return of the Generations Fund (1)	Cost of new borrowings(2)	Difference (percentage points)
2007-2008	5.6 (3)	4.8	0.8
2008-2009	–22.4	4.2	–26.6
2009-2010	11.3	4.6	6.7
2010-2011	12.3	4.4	7.9
2011-2012	4.0	4.0	—
2012-2013	8.4	3.6	4.8

(1) On a calendar year basis.
(2) On a fiscal year basis.
(3) Return realized from February to December 2007, since the first deposit was made in the Generations Fund on January 31, 2007.

3.3 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances et de l'Économie

Since data on the returns of the Caisse de dépôt et placement du Québec achieved in 2013 were not available at the time of preparation of the budget, this section presents the returns for 2012.

In 2012, the return on funds deposited by the Ministère des Finances et de l'Économie with the Caisse de dépôt et placement du Québec was 9.39% for the RPSF, 8.35% for the Generations Fund and 8.44% for the Accumulated Sick Leave Fund. The investment policy of these funds is presented in the box on page E.50.

TABLE E.25

Market value and return in 2012 on funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances et de l'Économie

	Return	Market value as at December 31, 2012
	(%)	($ million)
Retirement Plans Sinking Fund	9.39	40 722
Generations Fund	8.35	5 170
Accumulated Sick Leave Fund	8.44	751

3.3.1 Retirement Plans Sinking Fund

The RPSF posted a return of 9.39% in 2012. Its market value was $40 722 million as at December 31, 2012.

The assets of the RPSF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances et de l'Économie in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the RPSF consists of 35.75% fixed-income securities (bonds, real estate debt, etc.), 16.0% inflation-sensitive investments (real estate, infrastructure, etc.) and 48.25% equities. These weightings are similar to those used on average by the Caisse's depositors as a whole.

TABLE E.26

Investment policy of the RPSF as at January 1, 2014

(per cent)

	Benchmark portfolio of the RPSF	**Average benchmark portfolio of depositors as a whole[1]**
Fixed income securities	35.75	35.3
Inflation-sensitive investments	16.00	16.7
Equities	48.25	46.0
Other investments	—	2.0
TOTAL	**100.00**	**100.0**

(1) Data as at December 31, 2012. *Annual Report 2012* of the Caisse de dépôt et placement du Québec. The annual report for 2013 is not available yet.

With its investment policy, the RPSF should generate an annual return of 6.45%. It is important to note that the RPSF's investment policy is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the RPSF's assets, particularly to take fluctuations in the economic and financial situation into account. The RPSF's benchmark portfolio would have generated a return of 9.21% in 2012.

3.3.2 **Generations Fund**

The Generations Fund posted a return of 8.35% in 2012. Its market value was $5 170 million as at December 31, 2012.

The assets of the Generations Fund are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances et de l'Économie in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the Generations Fund consists of 41.0% fixed-income securities (bonds, real estate debt, etc.), 14.0% inflation-sensitive investments (real estate, infrastructure, etc.) and 45.0% equities.

TABLE E.27

Investment policy of the Generations Fund as at January 1, 2014
(per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	41.0	35.3
Inflation-sensitive investments	14.0	16.7
Equities	45.0	46.0
Other investments	—	2.0
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2012. *Annual Report 2012* of the Caisse de dépôt et placement du Québec. The annual report for 2013 is not available yet.

The investment policy of the Generations Fund aims to achieve a long-term return of 6.45% per year. It is important to note that the investment policy of the Generations Fund is based on a long-term horizon and is the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the Generations Fund's assets, particularly to take fluctuations in the economic and financial situation into account. The benchmark portfolio of the Generations Fund would have generated a return of 8.88% in 2012.

3.3.3 Accumulated Sick Leave Fund

The Accumulated Sick Leave Fund (ASLF) posted a return of 8.44% in 2012. Its market value was $751 million as at December 31, 2012.

The assets of the ASLF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances et de l'Économie in cooperation with the Caisse. Since January 1, 2009, the ASLF's investment policy has been identical to that of the RPSF, as the creation of the ASLF stems from a long-term commitment made by the government in regard to employee future benefits, which is similar to the commitment regarding the retirement plans. The ASLF's benchmark portfolio would have generated a return of 9.21% in 2012.

Comparison of investment policies

Investment policies as at January 1, 2014
(per cent)

Specialized portfolios	RPSF and ASLF	Generations Fund	Average benchmark portfolio of depositors as a whole(1)
Short-Term Investments	1.0	1.0	1.1
Bonds	28.75	34.0	26.1
Long-Term Bonds	0.0	0.0	2.3
Real Estate Debt	6.0	6.0	5.8
Total – Fixed Income	**35.75**	**41.0**	**35.3**
Real Return Bonds	0.0	0.0	0.8
Infrastructure	5.0	4.5	4.5
Real Estate	11.0	9.5	11.4
Total – Inflation-Sensitive Investments	**16.0**	**14.0**	**16.7**
Canadian Equity	11.75	10.0	12.4
Global Equity	2.0	2.0	7.2
Québec International	—	—	0.1
Global Quality Equity	8.5	8.0	—
US Equity	4.5	5.0	5.9
Foreign Equity (EAFE)	4.5	5.0	6.1
Emerging Markets Equity	5.0	5.0	4.4
Private Equity	12.0	10.0	9.9
Total – Equity	**48.25**	**45.0**	**46.0**
Hedge Funds	—	—	2.0
Total – Other Investments	**0.0**	**0.0**	**2.0**
TOTAL	**100.0**	**100.0**	**100.0**

RPSF: Retirement Plans Sinking Fund.
ASLF: Accumulated Sick Leave Fund.
EAFE: Europe, Australasia, Far East.
(1) Data as at December 31, 2012. *Annual Report 2012* of the Caisse de dépôt et placement du Québec. The annual report for 2013 is not available yet.

3.4 Impact of the returns of the Retirement Plans Sinking Fund on debt service

The government records an interest charge on the retirement plans liability. This stems from the fact that historically, it decided to manage its contributions to the retirement plans of its employees internally rather than have an external fund manage them. This reduced borrowings on financial markets and growth in the direct debt. On the other hand, the commitments in respect of the retirement plans of government employees are shown as a liability and the government must record an interest charge calculated on the value of the actuarial obligations in respect of these plans. However, the investment income of the RPSF must be subtracted from this amount. The interest charge on the retirement plans liability is included in the government's debt service.

TABLE E.28

Interest on the retirement plans liability
(millions of dollars)

	2012-2013
Interest on the actuarial obligations relating to the retirement plans(1)	5 066
Less: Investment income of the RPSF	–1 992
INTEREST ON THE RETIREMENT PLANS LIABILITY	**3 074**

(1) Net of the income of specific funds of the plans.

The returns realized by the Caisse on the RPSF are taken into account in the government's balance sheet and results by applying the accounting policy adopted in the wake of the December 2007 reform of government accounting in accordance with generally accepted accounting principles (GAAP).

> When determining a government's retirement benefit liability and expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently.[4]

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[4] CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, *CICA Public Sector Accounting Handbook*, Section PS 3250, paragraph .035.

Under the accounting policy, the "adjusted market value" of the RPSF is adjusted every year based on the returns realized on the fund. If, for a given year, the realized return differs from the anticipated long-term return, the difference between the two is spread over five years. All other things being equal, this means that the adjusted market value and the market value will converge over a five-year period. It is important to note that this method is applied when returns are higher than expected as well as when they are lower.[5]

In addition, the differences between the realized and expected return, which are spread over five years, are taken into account in RPSF income by amortizing them over a period of about 13 years, that is, the expected average remaining service life (EARSL) of retirement plan participants.[6] This amortization mechanism and the period used are prescribed by GAAP.[7]

For example, the losses incurred by the Caisse in 2008-2009 reduced the income of the RPSF as of 2009-2010, while a higher-than-expected rate of return in 2012-2013 increases RPSF income as of 2013-2014.

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[5] Before the accounting reform of 2007, the value of the RPSF was adjusted only once every three years, that is, when actuarial valuations were carried out. Since the reform, it is adjusted every year.

[6] As with recognition of the retirement plans liability, the RPSF accounting method draws a distinction between the Pension Plan of Management Personnel (PPMP) and the other plans. The EARSL under the PPMP is 9 years compared with 14 years under the other plans.

[7] "...actuarial gains and losses should be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group." CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, *CICA Public Sector Accounting Handbook*, Section PS 3250, paragraph .062. For the purposes of retirement assets, the CICA defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and projected results.

TABLE E.29

Impact of the returns of the Caisse de dépôt et placement du Québec on debt service(1)

(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Before 2008-2009	–48	–78	–57	11	10	16
From 2008-2009	307	629	972	1 337	1 726	1 726
From 2009-2010		–65	–134	–207	–285	–369
From 2010-2011			–53	–110	–171	–236
From 2011-2012				15	30	47
From 2012-2013					–24	–49
IMPACT ON DEBT SERVICE	**259**	**486**	**728**	**1 046**	**1 286**	**1 135**

Note: A positive entry indicates an increase in debt service and a negative entry, a decrease.

(1) The amounts represent the impact on RPSF income, and therefore on debt service, of returns of the Caisse that are lower or higher than the projected rate for that period and that are amortized.

4. CREDIT RATINGS

4.1 The Québec government's credit ratings

A borrower's credit rating measures its capacity to pay the interest on its debt and repay the principal at maturity. To establish the credit rating of a borrower like the Québec government, credit rating agencies analyze a series of economic, fiscal and financial factors. Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness, public finance situation and indebtedness.

To express the quality of a borrower's credit, credit rating agencies use rating scales, namely, a scale for long-term debt and a scale for short-term debt.

The following table shows the rating scales used by agencies for long-term debt. The current credit ratings for Québec are indicated in bold.

TABLE E.30

Credit rating scales for long-term debt

Definition	Moody's	Standard & Poor's	DBRS	Fitch	Japan Credit Rating Agency
Extremely strong capacity to pay interest and repay principal.	Aaa	AAA	AAA	AAA	AAA
Very strong capacity to pay interest and repay principal.	Aa1	AA+	AA (high)	AA+	**AA+**
	Aa2	AA	AA	AA	AA
	Aa3	AA–	AA (low)	**AA–**	AA–
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1	**A+**	**A (high)**	A+	A+
	A2	A	A	A	A
	A3	A–	A (low)	A–	A–
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1	BBB+	BBB (high)	BBB+	BBB+
	Baa2	BBB	BBB	BBB	BBB
	Baa3	BBB–	BBB (low)	BBB–	BBB–
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1	BB+	BB (high)	BB+	BB+
	Ba2	BB	BB	BB	BB
	Ba3	BB–	BB (low)	BB–	BB–
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1	B+	B (high)	B+	B+
	B2	B	B	B	B
	B3	B–	B (low)	B–	B–

Agencies add an "outlook" to the rating that indicates the trend the credit rating may follow in the future. The outlook may be positive, stable or negative. In the case of Québec, all of the agencies assign a "stable" outlook to its credit rating, except for Fitch, which assigns a "negative" outlook.

TABLE E.31

The Québec government's credit ratings

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
DBRS	A (high)	Stable
Fitch	AA–	Negative
Japan Credit Rating Agency (JCR)	AA+	Stable

The following table shows the rating scales used by agencies for short-term debt. The current credit ratings for Québec are indicated in bold.

TABLE E.32

Credit rating scales for short-term debt(1)

Definition	Moody's	Standard & Poor's	DBRS	Fitch
Very strong capacity to pay interest and repay principal over the short term.	**P–1**	**A–1+** A–1	R–1 (high) **R–1 (middle)** R–1 (low)	**F1+** F1
Very adequate capacity to pay interest and repay principal over the short term, despite greater sensitivity to economic conditions than the upper level.	P–2	A–2	R–2 (high)	F2
Adequate capacity to pay interest and repay principal over the short term. Difficult economic conditions may reduce this capacity.	P–3	A–3	R–2 (middle) R–2 (low) R–3	F3
Uncertain capacity to pay interest and repay principal over the short term. Securities in this category are considered speculative securities.	Not Prime(2)	B–1 B–2 B–3 C	R–4 R–5	B C
Incapacity to pay interest and repay principal over the short term. Securities in this category are considered default securities.	Not Prime(2)	D	D	D

(1) JCR does not assign short-term credit rating to Québec.

(2) Moody's uses the "Not Prime" category for all securities not included in the upper categories.

☐ Change in Québec's credit ratings

The following charts show the change in the Québec government's credit ratings. The credit ratings for 2014 are those in effect as at February 12, 2014.

CHART E.13

Credit rating assigned to Québec by Moody's

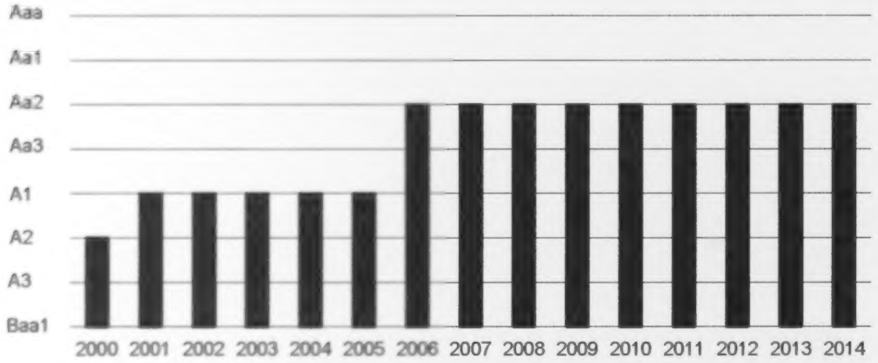


CHART E.14

Credit rating assigned to Québec by Standard & Poor's

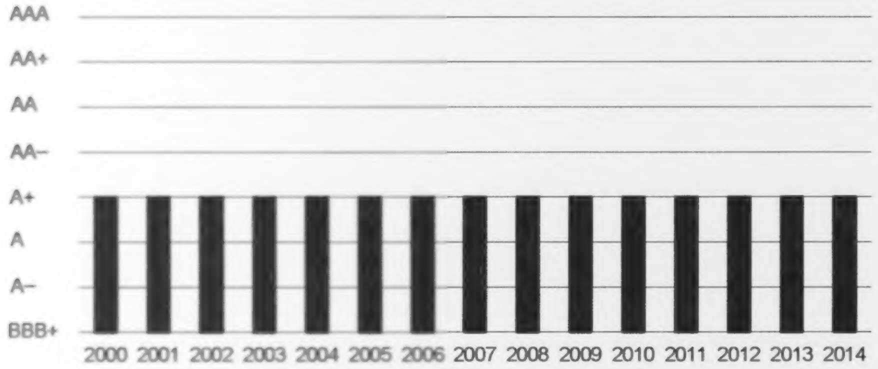
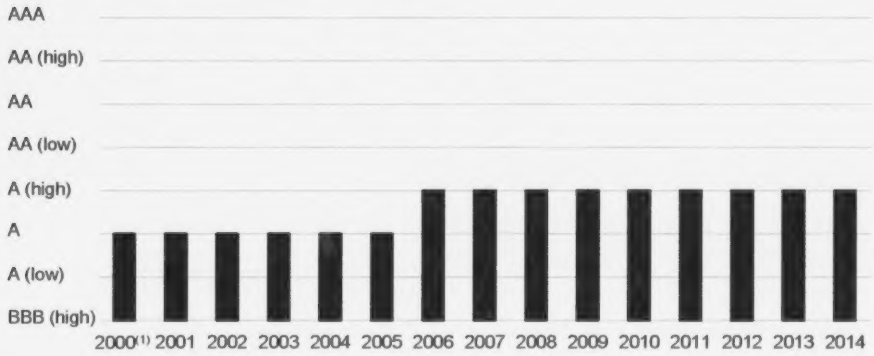


CHART E.15

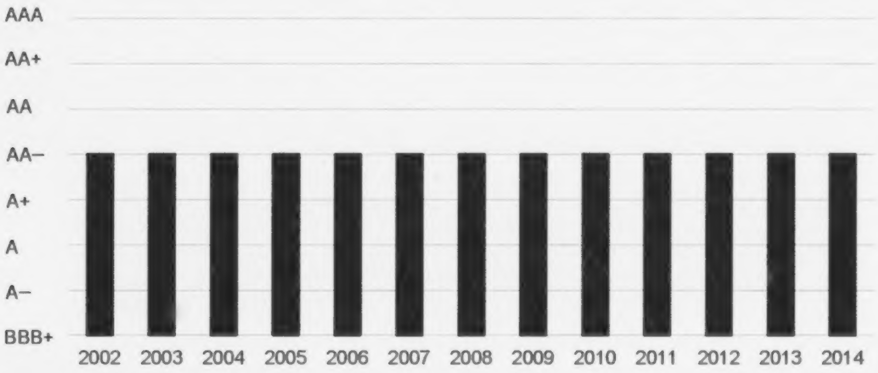
Credit rating assigned to Québec by DBRS



(1) The credit rating was raised from A (low) to A on June 14, 2000.

CHART E.16

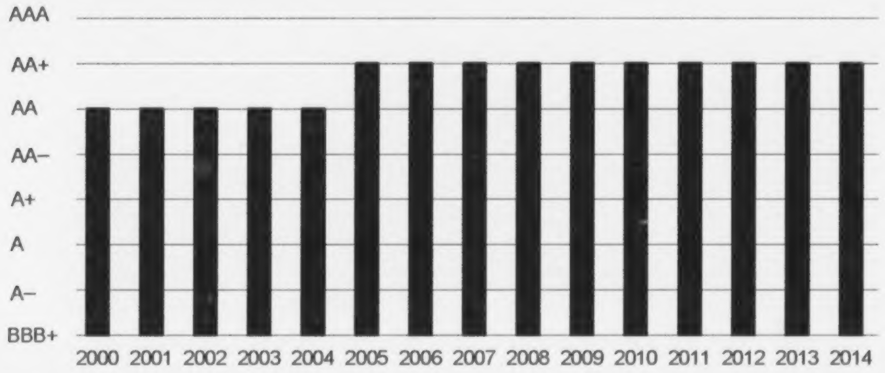
Credit rating assigned to Québec by Fitch



Note: Fitch has assigned Québec a credit rating since 2002.

CHART E.17

Credit rating assigned to Québec by JCR

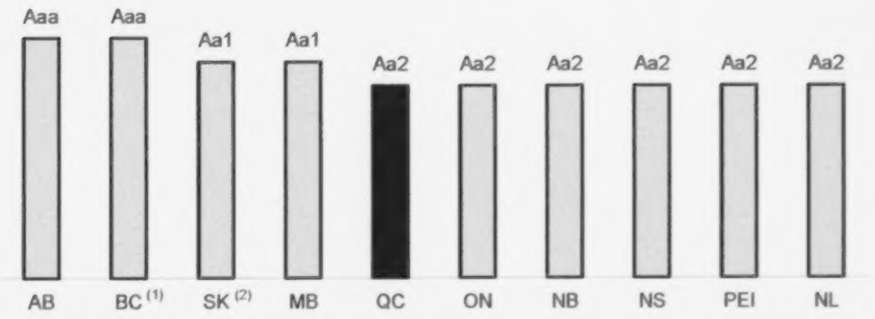


4.2 Comparison of the credit ratings of Canadian provinces

The following charts show the credit ratings of Canadian provinces as at February 12, 2014. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART E.18

Credit ratings of Canadian provinces – Moody's



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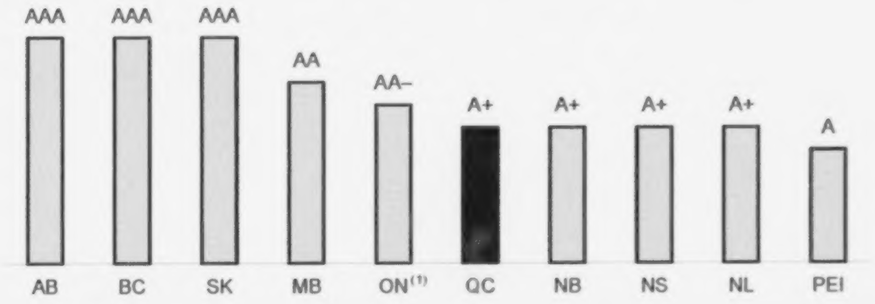
(1) Negative outlook.
(2) Positive outlook.

CHART E.19

Credit ratings of Canadian provinces – Standard & Poor's



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(1) Negative outlook.

CHART E.20

Credit ratings of Canadian provinces – DBRS

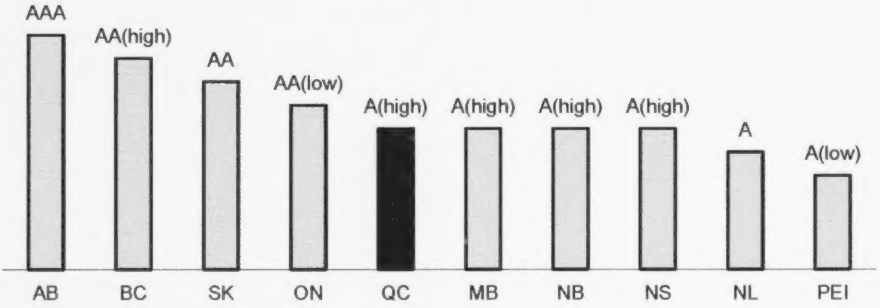
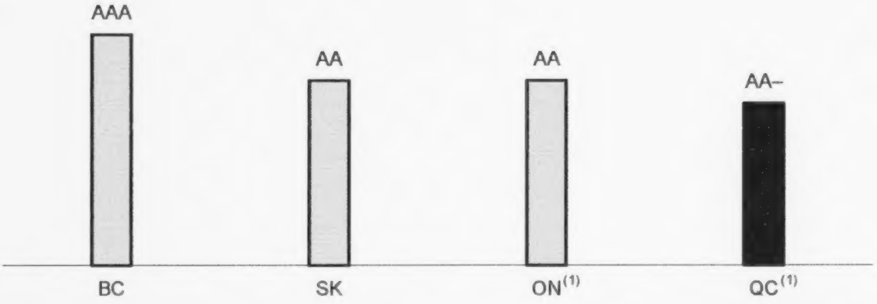


CHART E.21

Credit ratings of Canadian provinces – Fitch



Note: British Columbia, Saskatchewan, Ontario and Québec are the only provinces that receive credit ratings from this agency.

(1) Negative outlook.

Section F

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INTRODUCTION

The federal government confirmed in its February 2014 budget that it will post large and recurring surpluses beginning in 2015-2016. At the same time, most provinces, including Québec, will face difficult budgetary choices. The fiscal imbalance between the federal government and the provinces is back.

The federal government's favourable budgetary outlook stems, in particular, from unilateral decisions made since 2008 concerning the equalization program, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).

- In November 2008, the federal government, without consulting the provinces, imposed two caps on the equalization program as a result of which the recipient provinces are no longer able to offer reasonably comparable services at a reasonably comparable level of taxation. This decision has cost Québec more than $8 billion since 2009-2010.

- In December 2011, the federal government unilaterally decided to reduce the growth in the CHT, which is currently 6%, to that of Canada's nominal GDP as of 2017-2018 and to no longer take the value of tax points into account in the allocation of the CHT envelope as of 2014-2015. These decisions will deprive Québec of $9.7 billion from 2014-2015 to 2024-2025.

In addition, other disagreements have emerged between Québec and the federal government in recent years.

- Regarding the 2008-2014 Canada-Québec Labour Market Agreement, Québec is asking that it be renewed in its entirety according to the existing terms and conditions, since workforce training comes under its jurisdiction and the measures Québec has put in place are effective.

- While the new Building Canada plan was unveiled almost a year ago, the federal government recently announced to the provinces, in February 2014, that it did intends to pay the funds of the new 2014-2024 Building Canada plan in the same way it did under the 2007-2014 Building Canada plan. The piecemeal approach to negotiations the federal government wants to put in place is inefficient at a time when the provinces and municipalities face crying infrastructure needs.

- The federal government has yet to resolve a number of other financial issues that require a quick and fair treatment for Québec.

If the federal government does not take the corrective measures sought by Québec and continues to pull back from financial commitments to the provinces, they will no longer be able to maintain the quality of public services offered to their population while the federal government will reap recurring surpluses. This will be an unfair situation.

The purpose of this section is to detail the major financial disagreements between Québec and the federal government as well as the solutions Québec is proposing to resolve them in the near future.

1. THE FISCAL IMBALANCE IS BACK

It appears inevitable that a situation of fiscal imbalance will re-emerge between the federal government and the provinces. In the near future, the federal government will post large budget surpluses while the provinces will continue to come under significant budgetary pressure, especially with regard to health spending.

— It is worth noting that a fiscal imbalance occurs when the provinces no longer have enough revenue to deliver necessary public services, while the federal government collects more revenue than it needs to fulfil its responsibilities.

The return of the fiscal imbalance will place the provinces in a precarious financial situation. To avoid this situation, it is essential that the federal government restore the financial breathing room the provinces lost as a result of unilateral decisions made since 2008 in relation the main federal transfers (equalization, CHT and CST) and a number of other programs.

1.1 Large federal surpluses as of 2015

The federal government confirmed, in its February 2014 budget, a budget surplus of $9.4 billion as of 2015-2016, including a reserve of $3 billion, while most of the provinces will have to work even harder to balance their budget with no financial leeway.

— Québec is forecasting that fiscal balance will be restored in 2015-2016 as a result of very tight spending management.

— New Brunswick and Manitoba expect to balance their budget in 2016-2017.

— Ontario's budget will be balanced in 2017-2018.

The federal government is also forecasting recurring surpluses for many years to come according to federal projections[1] in the November 2013 Update of Economic and Fiscal Projections.

— Federal projections indicate surpluses reaching $13 billion by 2025-2026.

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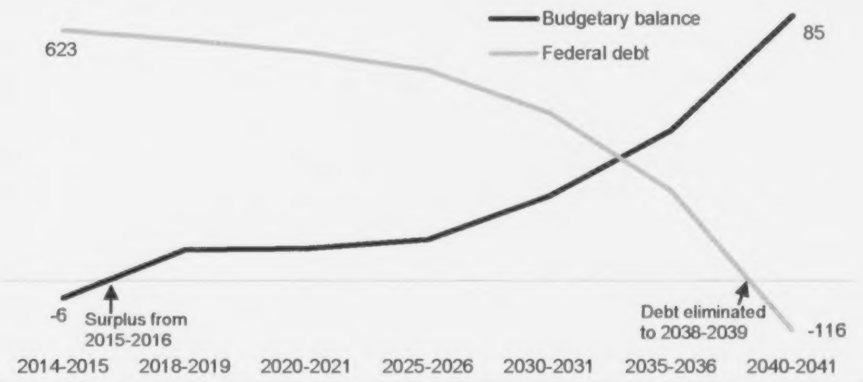
[1] The federal government's long-term economic and fiscal projections were not updated in the February 2014 federal budget, and accordingly do not reflect the improvement in the budgetary situation revealed in that budget, which covers a period ending in 2018-2019.

- Furthermore, the federal government's budgetary situation will be so favourable that half of the federal debt will be paid off within 10 years.

CHART F.1

The federal government's long-term budgetary projections
(billions of dollars)



Sources: Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

1.2 Favourable outlook confirmed by the Office of the Parliamentary Budget Officer

The *Fiscal Sustainability Report 2013* of the Office of the Parliamentary Budget Officer, released in September 2013, confirms that the federal government's long-term budgetary outlook is appreciably more favourable than that of the provinces.

- The federal government's financial situation, which was viewed as unsustainable in 2011, will henceforth be favourable in the long-term chiefly because of the federal decision to restrict the growth of the CHT as of 2017-2018. However, this reduced growth of the CHT means there is a greater risk that the provinces' financial situation will deteriorate in the long run.

- The updated fiscal gap indicates that the federal government could reduce its revenue, increase its program spending or both by an amount corresponding to 0.9% of GDP over a 25-year horizon without jeopardizing its financial sustainability.[2] This gap will continue to widen over time.

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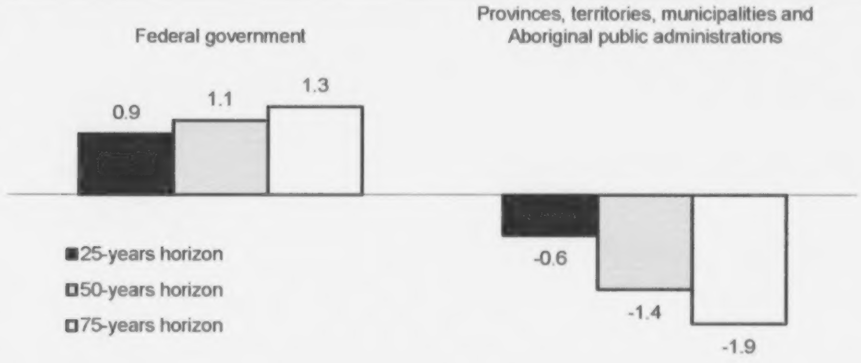
[2] "PBO [Parliamentary Budget Officer] defines a government's fiscal structure as sustainable if the financial flows evolve so that the ratio of government debt to GDP returns to its current level over a 75-year horizon." OFFICE OF THE PARLIAMENTARY BUDGET OFFICER, "Fiscal Sustainability Report 2013", September 26, 2013, p. 2, in Our Publications, on the website of the Office of the Parliamentary Budget Officer, www.pbo-dpb.gc.ca/en/.

— On the other hand, the report indicates that the provinces, territories, municipalities and Aboriginal public administrations will have to work even harder to remain financially sustainable by raising taxes, reducing program spending or both since the fiscal gap will amount to –0.6% of GDP over a 25-year horizon. This gap will continue to widen over time.

CHART F.2

Estimate of the fiscal gap
(as a percentage of GDP)



Sources: Office of the Parliamentary Budget Officer and Ministère des Finances et de l'Économie du Québec.

2. FEDERAL TRANSFERS: SEPARATING MYTH FROM REALITY

The federal government maintains that the major federal transfers paid to the provinces are the largest they have ever been in recent years, in particular transfers under the equalization program. What's the real story?

2.1 Federal transfers close to their 1989-1990 level

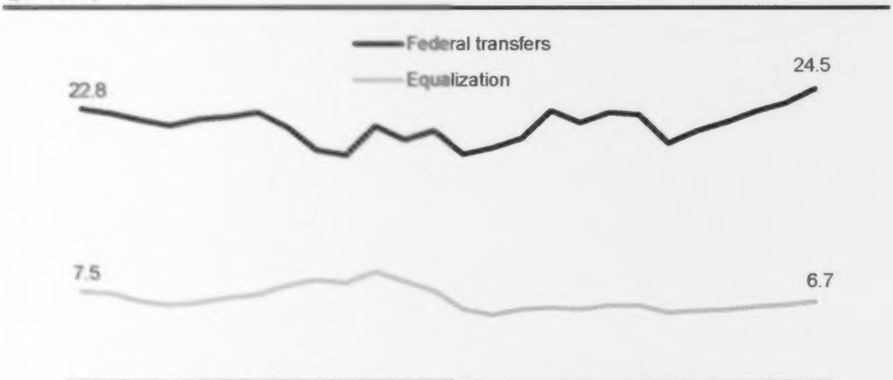
It is true that, in absolute terms, federal transfers have never been so large. However, to properly measure the contribution of federal transfers to the funding of public services, their weight as a proportion of the federal government's spending must be compared.

— This analysis shows that between 1989-1990 and 2014-2015, federal transfers as a percentage of federal program spending have remained relatively flat, rising from 22.8% to 24.5%, an increase of 1.7 percentage point over 25 years.

— In addition, over the same period, the equalization envelope in federal program spending has fallen from 7.5% in 1989-1990 to 6.7% in 2014-2015, a decline of 0.8 percentage point over the last 25 years.

CHART F.3

Federal transfers and equalization as a proportion of federal program spending
(per cent)



Sources: Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

Accordingly, the federal government's claim is false since neither the major federal transfers nor the equalization envelope has risen substantially over the last 25 years as a proportion of federal program spending: they have remained relatively stable.

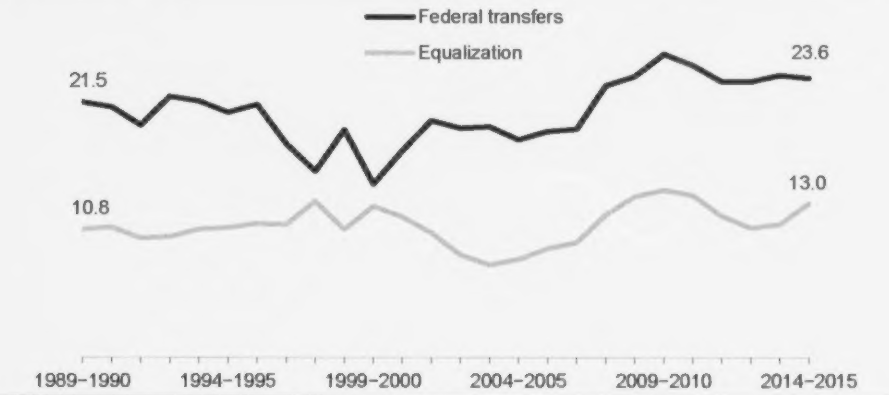
❑ Little change in the share of Québec's revenue

From 1989-1990 to 2014-2015, federal transfers and equalization payments to Québec as a proportion of its budgetary revenue have remained relatively stable, rising from 21.5% to 23.6%, an increase of 2.1 percentage points in 25 years.

While Québec's equalization payment of $9.3 billion in 2014-2015 is the largest among the recipient provinces, it accounts for only 13.0% of Québec's revenue, i.e. a share similar to that of 1989-1990 and to the 11.1% average of the last 25 years.

CHART F.4

Major federal transfers and equalization as a proportion of Québec's budgetary revenue
(per cent)



Sources: Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

The federal budgetary balance by province

Statistics Canada's provincial economic accounts (PEA) show the federal budgetary balance by province. A federal deficit in one province means that the federal government collected less revenue there than what it spent.

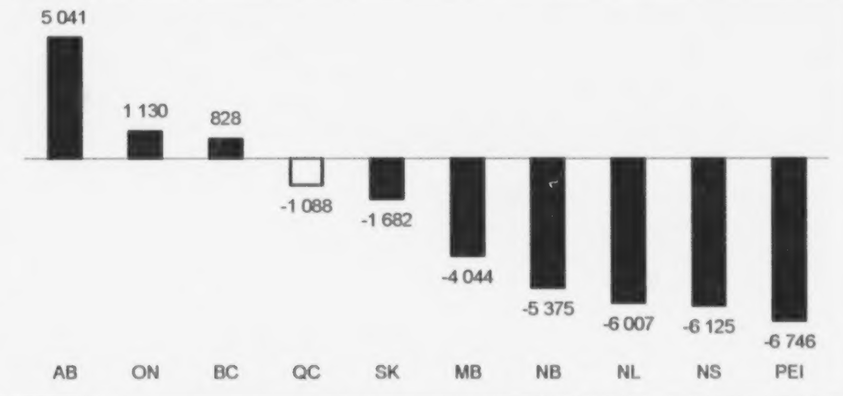
- All federal spending is included in the PEA calculation, whether transfers to the provinces, transfers to persons or direct spending by the federal government (for example: public servants, military bases).
- Caution is needed when using the PEAs to assess inter-provincial redistribution in Canada. On this issue, Statistics Canada noted in the *Canadian Economic Observer* published in February 2007 on pages 3.2 and 3.3:

> As a result, performing a cost benefit analysis of Confederation simply using the federal government revenue and expenditure estimates of the PEA is erroneous. The fiscal arrangements in our confederation are far more subtle than that [...] While the federal government may, for example, transfer money to the Atlantic Provinces under the equalization program, that money might then be used to purchase medical equipment manufactured in Ontario.

The data available over the most recent five years (2005 to 2009) indicate that the federal government registered its smallest deficit in Québec ($1 088 per capita on average) among the seven provinces where the revenue the federal government collected was less than what it spent.

- In the six other provinces in the same situation, the federal deficit was from 1.5 to 6 times higher than in Québec, ranging from $1 682 per capita in Saskatchewan to $6 746 in Prince Edward Island.

Budgetary balance of the federal government by province, annual average from 2005 to 2009
(dollars per capita)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

In addition, for 2009, the federal government was in a deficit position in every province except Alberta (surplus of $4 325 per capita).

2.2 A lower proportion of federal transfers in Québec than in many other provinces

Some people believe that Québec's revenue from federal transfers as a proportion of its budgetary revenue is the highest among the provinces that receive equalization However, as the following chart shows, such is not the case.

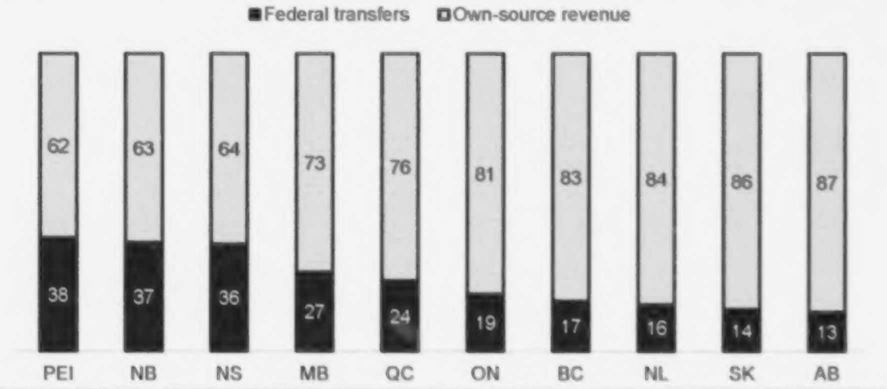
— In 2013-2014, Québec's budgetary revenue consists mainly of own-source revenue, i.e. 76%. This own-source revenue stems from the tax effort of Québec taxpayers (for example: personal and corporate income tax, consumption taxes and royalties).

— On the other hand, Québec's federal transfers amount to 24% (of which equalization revenue accounts for 11%) of its budgetary revenue.

— Excluding Ontario, federal transfers account for a larger share of budgetary revenue in the other provinces receiving equalization, i.e. Prince Edward Island, New Brunswick, Nova Scotia and Manitoba.

CHART F.5

Federal transfers and own-source revenue as a proportion of provincial budgetary revenue – 2013-2014
(per cent)



Note: Excluding Québec's special abatement.
Sources: Provincial budgets and economic updates and Ministère des Finances et de l'Économie du Québec.

Equalization: Québec ranks 5th among recipient provinces

Québec receives a large share of the equalization envelope since it is the most populous recipient province (8 million people) after Ontario.

- Equalization payments, it should be noted, are set on a per capita basis.

When the amount of equalization Québec receives in dollars per capita ($1 158) is compared with that of the other recipient provinces, Québec ranks 5th in 2014-2015 Accordingly, it is false to state that Québec is the largest recipient of equalization.

- On a dollars per capita basis, Manitoba, Nova Scotia, New Brunswick and Prince Edward Island receive more equalization than Québec.

Equalization and population of the recipient provinces – 2014-2015

	A	B	A × B
	$ per capita	**Population**	**$ million**
Prince Edward Island	2 501	143 843	360
New Brunswick	2 205	755 413	1 666
Nova Scotia	1 715	943 961	1 619
Manitoba	1 415	1 236 836	1 750
Québec	**1 158**	8 017 455	9 286
Ontario	150	13 289 450	1 988
TOTAL	**684**	**24 386 958**	**16 669**

Note: Figures have been rounded off, so the total may not correspond to the total indicated.
Source: Department of Finance Canada.

3. THE EQUALIZATION PROGRAM IS STRAYING FROM ITS OBJECTIVE

3.1 Objective: comparable services at comparable levels of taxation

The equalization program is now the only federal transfer whose purpose is to redistribute wealth. Under the "traditional" equalization program, the equalization payments received by the recipient provinces help raise their per capita fiscal capacity to the average of the ten provinces so that they can "provide reasonably comparable levels of public services at reasonably comparable levels of taxation".[3]

— These payments are unconditional: the provinces are free to use them according to their priorities.

— This federal program is funded from revenue the federal government collects in all the provinces, including those that receive equalization payments. Accordingly, this is a transfer between the federal government and the recipient provinces, not a system of transfers among the provinces.

— It should be noted that since the program was introduced in 1957-1958, every province has, at some time or another, received an equalization payment.

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[3] Section 36 (2) of the *Constitution Act, 1982*.

How does the "traditional" equalization program work?

The "traditional" working of the equalization program

The capacity to generate revenue varies from one province to another. To avoid a situation where the recipient provinces must impose a higher-than-average tax burden to offer services that are comparable in quantity and quality, the "traditional" equalization program bridges the gap between their lower fiscal capacity, in per capita dollars, and the average of the ten provinces.

More specifically, fiscal capacity is defined as the revenue a province could obtain if it applied, to its tax bases (personal income tax [PIT], corporate income tax [CIT], consumption taxes, natural resources and property taxes) the average tax rates in effect in the ten provinces. In other words, it is its capacity to collect revenue.

- The fiscal capacity arising from the five tax bases of a province is measured using a several indicators: the basic federal tax for the PIT base, taxable corporate income for the CIT base, the market value of properties for the property tax base, etc.
- The average tax rate of a tax base corresponds to the ratio between the revenue actually collected by the provinces and the estimated fiscal capacity of all the provinces for such tax base.

A province's fiscal capacity thus differs from the revenue actually collected by the province, which results from the tax rates it imposes according to its own societal choices.

The program worked adequately for only 20 months

The "traditional" working of the equalization program only applied from March 2007 to November 2008. The federal government subsequently changed the program, without consulting the provinces, capping the growth in equalization payments at the growth rate of Canada's nominal GDP. As a result of this change, the program no longer fully bridges the gap between a province's fiscal capacity and the average fiscal capacity of the ten provinces.

- In November 2008, the federal government decided to impose two caps on the program, caps that cause substantial distortions in the "traditional" working of the program and generate inequities among the recipient provinces. Section 3.3 goes into greater detail on the financial consequences of the imposition of these caps.

3.2 More generous public services... funded by Quebecers

Under the "traditional" working of the equalization program, in effect from March 2007 to November 2008, the equalization payments received by the recipient provinces raised their fiscal capacity to the average of the ten provinces so that they could "provide reasonably comparable levels of public services at reasonably comparable levels of taxation".

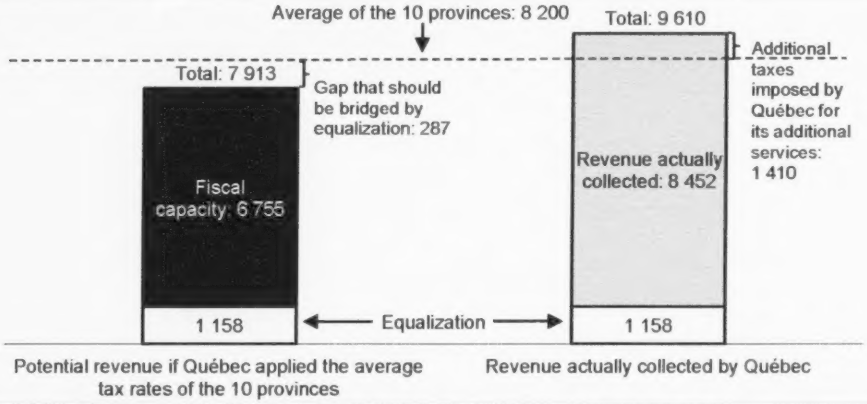
However, with the caps imposed on the equalization program since 2009-2010 and given the fact that half the revenue drawn from natural resources is excluded from the program, Québec must impose a tax burden that is $287 per capita higher ($8 200 – $7 913) than the average of the ten provinces to offer a level of services "comparable" to the other provinces in 2014-2015.

Beyond this "comparable" level of services, Québec has chosen to offer more public services than the Canadian average by raising its tax effort.

- To offer these services "in addition" to the services that are "comparable" to the Canadian average, Québec imposes an additional tax burden of $1 410 per capita ($9 610 - $8 200), which represents $11.3 billion.
- The revenue Québec actually collects therefore totals $8 452 per capita ($6 755 + $287 + $1 410).

CHART F.6

Fiscal capacity of and revenue actually collected by Québec – 2014-2015
(dollars per capita)



Sources: Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

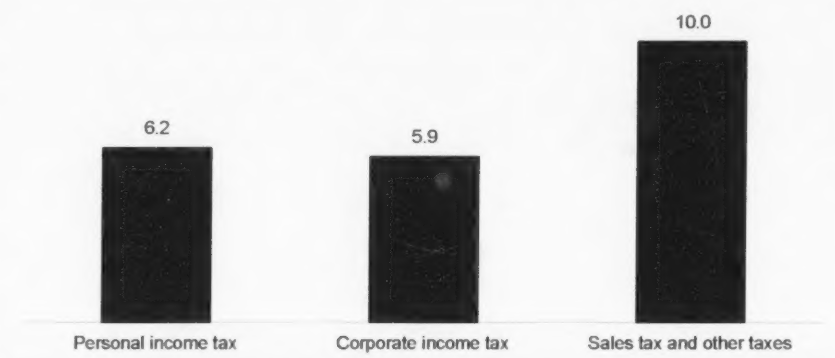
Consequently, it is false to state that equalization allows Québec to fund more generous public services than the Canadian average: it does so through higher taxes.

— Note that the equalization program does not require that the provinces have a comparable level of taxation or similar services: the provinces are free to offer programs that are more or less generous and adjust their taxation level accordingly. That is a societal choice.

Québec's tax system applied to Alberta: additional revenue of $22 billion

Each year, Alberta demonstrates Québec's heavier tax burden. In 2013, had the Alberta government applied Québec's tax system to its taxpayers, it would have collected almost $22 billion in additional revenue, including $6.2 billion more in personal income tax, $5.9 billion more in corporate income tax and $10.0 billion in sales tax and other taxes.

Additional revenue obtained by Alberta if it applied Québec's tax system
(billions of dollars)



Sources: GOVERNMENT OF ALBERTA, "Alberta's Tax Advantage, 2013", on the website *Alberta Open Data Portal*, November 22, 2013, http://data.alberta.ca/data/alberta-tax-advantage-2013-0, and Ministère des Finances et de l'Économie du Québec.

Alberta could therefore offer its citizens similar and even more generous public services than those of Québec. However, as a result of its societal choices, Alberta has decided to offer fewer services and reduce its tax effort.

3.3 Caps that deflect the program from its objective

As a result of the caps the federal government imposed unilaterally in November 2008, the equalization program is no longer playing its role.

☐ The 2008 individual cap is unfair

In March 2007, the federal government implemented most of the recommendations made by the Expert Panel on Equalization[4] chaired by Al O'Brien, former Deputy Treasurer of Alberta. Among other things, the report proposed implementing a fair individual cap that would ensure that a province receiving equalization would not, after equalization, have a fiscal capacity greater than that of the province with the lowest fiscal capacity among those not receiving equalization ("2007 formula").

— In other words, the fair individual cap prevented a recipient province, after equalization, from becoming "richer" than the least "rich" province not receiving equalization.

— With a result of the fair individual cap, the recipient provinces then had the same fiscal capacity after equalization.

In November 2008, the federal government replaced the fair individual cap with an unfair individual cap as a result of which a recipient province cannot be "richer" than the average of the provinces receiving equalization.

— Under the unfair individual cap, an increase in fiscal capacity for the natural resources base of recipient provinces whose fiscal capacity is above the average of the recipient provinces (Québec, Nova Scotia and Manitoba) does not have the same impact as an increase for provinces whose fiscal capacity is below the average (Ontario, New Brunswick and Prince Edward Island). This individual cap is unequivocally unfair.

— For 2014-2015 alone, the impact of the unfair individual cap represents a significant revenue shortfall of $686 million for Québec.

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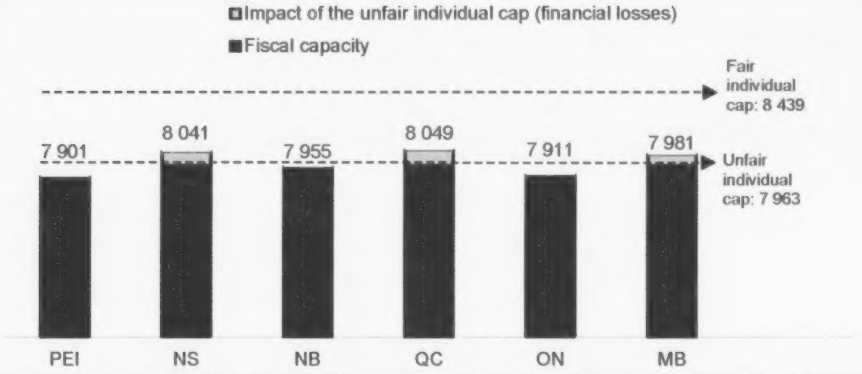
[4] EXPERT PANEL ON EQUALIZATION AND TERRITORIAL FORMULA FINANCING, *Achieving a National Purpose – Putting Equalization Back on Track*, [Report], May 2006.

CHART F.7

Fiscal capacity and impact of the unfair individual cap – 2014-2015
(dollars per capita)



Sources: Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

Had the fair individual cap been applied in 2014-2015, no recipient province would have been penalized because the fiscal capacity of each one is below that of British Columbia, the province with the lowest fiscal capacity among the non-recipient provinces.

In the interests of fairness, Québec considers it essential that the recipient provinces, whose fiscal capacity exceeds the average of the recipient provinces, not suffer a cut in equalization payments as a result of the unfair individual cap and that accordingly, all the recipient provinces have the same fiscal capacity after equalization.

☐ The GDP cap penalizes the less affluent provinces

In November 2008, the federal government also announced the GDP cap. The sole objective of this cap was to protect the federal government against any financial risk, at the expense of the recipient provinces. Accordingly, the equalization envelope cannot grow faster than Canada's nominal GDP, even if disparities in fiscal capacity widen between recipient and non-recipient provinces, which would require a more substantial increase in the equalization envelope.

— Under the GDP cap, the annual increase in the equalization envelope is limited to the three-year moving average of the growth in Canada's nominal GDP.

Furthermore, because of the GDP cap, the increase in equalization payments of one province necessarily occurs at the expense of those of the other recipient provinces, given the closed envelope.

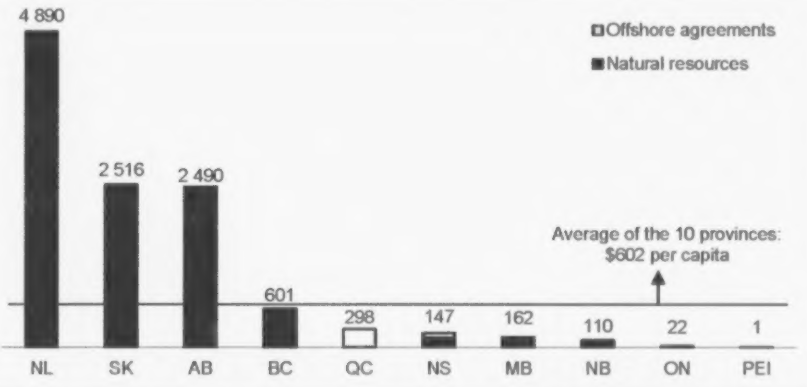
— Had the program not been capped at Canada's nominal GDP, Ontario and Québec would have received $669 and $404 million more respectively in 2014-2015.

For the equalization program to adequately bridge fiscal capacity disparities among the provinces, Québec is asking that the GDP cap be withdrawn.

The main source of fiscal disparities: revenue from natural resources

The main cause of fiscal disparities among the provinces is the concentration of revenue derived from natural resources within certain provinces as the following chart shows.

Fiscal capacities of the provinces in relation to revenue from natural resources, including 100% of natural resources and revenue under offshore agreements – 2014-2015
(dollars per capita)



Sources: Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

While the average fiscal capacity of the provinces for this revenue source amounts to $602 per capita in 2014-2015, it varies from $1 per capita in Prince Edward Island to $4 890 per capita in Newfoundland and Labrador.

- Accordingly, the province most generously endowed in natural resources has a fiscal capacity almost 5 000 times that of the least generously endowed province and more than eight times that of the average of the ten provinces.

Accordingly, whether or not a province has significant natural resources plays a major role in determining whether or not it is eligible to receive equalization payments.

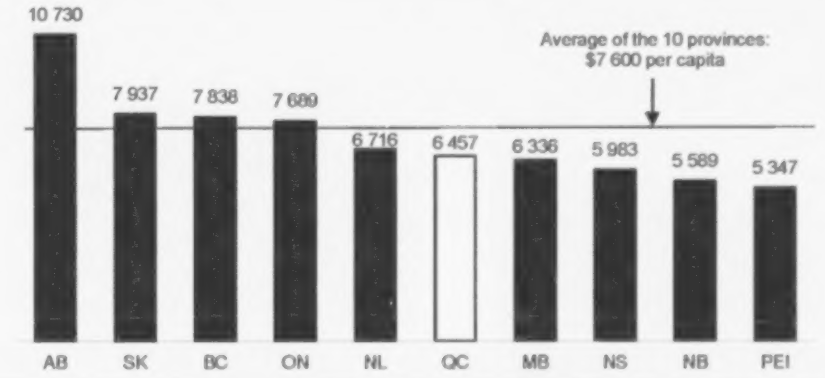
- Provinces with fiscal capacity equal to or greater than the average of the ten provinces for this tax base are the ones that do not receive equalization payments.

The main source of fiscal disparities: revenue from natural resources (continued)

On the other hand, fiscal disparities among the provinces are much less significant for the four other tax bases (personal income tax, corporate income tax, consumption taxes and property taxes) than for the natural resources tax base.

- Accordingly, the most affluent province for the four other tax bases has a fiscal capacity double that of the least affluent province and almost one and a half times that of the average of the ten provinces in 2014-2015.

Fiscal capacity of the provinces in relation to revenue sources other than natural resources – 2014-2015
(dollars per capita)



Sources: Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

Accordingly, it is correct to say that equalization payments are largely the result of the unequal geographical distribution of natural resources, the price changes of such resources and the economic consequences they generate.

- For instance, it is worth noting that a higher oil price favours provinces that have that resource and the resulting appreciation in the Canadian dollar makes Canadian international exports less competitive. However, this effect on international exports varies appreciably from province to province, since the provinces less generously endowed with natural resources will find it more difficult to export their products.

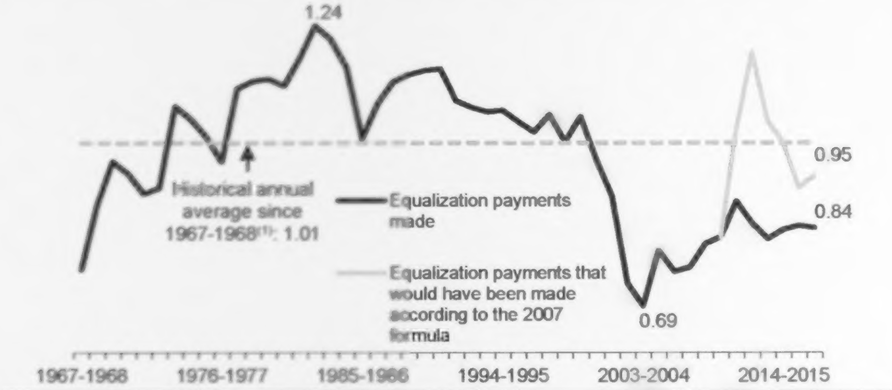
☐ Caps that push the cost of the equalization program below its historical average

In 2014-2015, the equalization envelope will represent 0.84% of Canada's nominal GDP compared with the historical average of 1.01% since 1967-1968.[5] Had the federal government not introduced the caps that changed the program as of 2009-2010, the cost of the equalization program in 2014-2015 according to the 2007 formula would have been below (0.95%) the historical average.

— The difference of 0.17 percentage point between the equalization envelope's current share as a proportion of Canada's nominal GDP (0.84%) and the historical average of 1.01% represents a revenue shortfall of $3.3 billion in 2014-2015 for the recipient provinces.

CHART F.8

Equalization as a proportion of Canada's nominal GDP
(per cent)



(1) The historical annual average since 1967-1968 is calculated including the equalization payments that would have been paid according to the 2007 formula as of 2009-2010.
Sources: Department of Finance Canada, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

☐ The impact of the caps has been financial losses in excess of $18 billion

Between 2009-2010 and 2014-2015, the financial losses relating to the implementation of the unfair individual cap and the GDP cap total $18.2 billion for the recipient provinces as a whole.

— Among the provinces receiving equalization payments, Québec has been penalized most heavily by the imposition of the caps, with losses of $8.6 billion, i.e. 47% of total losses.

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[5] The year 1967-1968 corresponds to the implementation of the average of the ten provinces as the standard of comparison of fiscal capacities among the provinces.

TABLE F.1

Cumulative financial losses of the provinces receiving equalization arising from the caps, from 2009-2010 to 2014-2015

(millions of dollars)

	Unfair individual cap	GDP cap	Total
Québec	**4 656**	**3 972**	**8 627**
Ontario	—	6 614	6 614
Nova Scotia	1 368	480	1 848
Manitoba	36	617	654
New Brunswick	9	382	391
Prince Edward Island	—	72	72
TOTAL	**6 069**	**12 137**	**18 206**

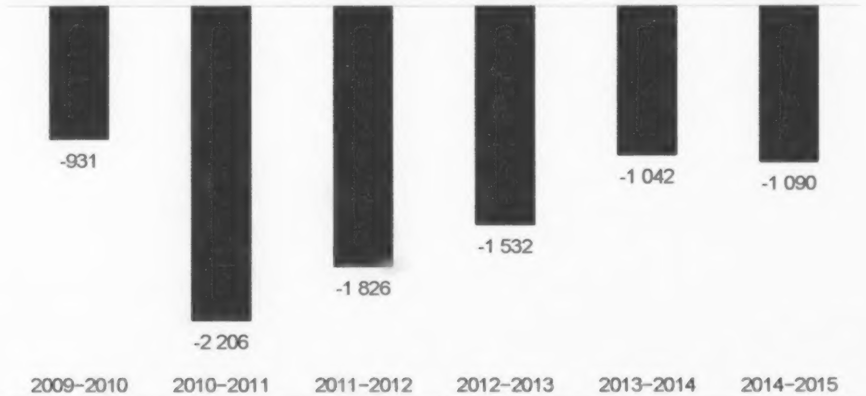
Source: Department of Finance Canada.

Québec has lost an average of $1.4 billion per year. Consequently, Québec must offset these losses each year with a tax burden that is heavier than it would be otherwise.

CHART F.9

Québec's financial losses arising from the caps, from 2009-2010 to 2014-2015

(millions of dollars)



Sources: Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

❑ Québec's fair proposal

Given that the implementation of the unfair individual cap and the GDP cap has resulted in inequities and has caused the current equalization program to no longer adequately offset fiscal capacity disparities, the Québec government considers it essential that these two caps be withdrawn.

— To refocus equalization on its objective, the unfair individual cap must be withdrawn and the 2007 equalization formula must be reintroduced.

To control the size of the equalization envelope, the Advisory Panel on the Fiscal Imbalance,[6] set up by the Council of the Federation, proposed a method that is considered fairer for the recipient provinces and under which they would have the same fiscal capacity after equalization. This proposal is consistent with the principle of fairness advocated by Québec.

— An equal reduction, in dollars per capita, of the equalization payments of the provinces could be applied at an amount of the equalization envelope agreed on by the federal government and the provinces. This amount could correspond to the historical average of 1.01% of nominal GDP.

— This method could be applied without having a negative impact on the public finances of the recipient provinces, provided the federal government increases the amount of the equalization envelope sufficiently.

Moreover, by implementing a gradual increase equivalent to 0.015 percentage point per year for 10 years, the proportion of the equalization envelope (0.84%) could reach the historical average of 1.01% of Canada's nominal GDP.

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[6] Advisory Panel on the Fiscal Imbalance, *Reconciling the Irreconcilable – Addressing Canada's Fiscal Imbalance*, [Report], Council of the Federation, 2006, p. 86-87.

TABLE F.2

Québec's fair proposal regarding the equalization formula

(dollars per capita)

	Fiscal capacity after equalization					
	Current formula	**2007 formula**	**Fair reduction**	**Fiscal capacity after equalization with fair reduction**	**Impact of a gradual increase**[1]	**Total**
Prince Edward Island	7 850	7 900	–82	7 818	12	7 830
Nova Scotia	7 772	7 900	–82	7 818	12	7 830
New Brunswick	7 850	7 900	–82	7 818	12	7 830
Québec	**7 764**	**7 900**	**–82**	**7 818**	**12**	**7 830**
Ontario	7 850	7 900	–82	7 818	12	7 830
Manitoba	7 832	7 900	–82	7 818	12	7 830

(1) By implementing a gradual increase of 0.015 percentage point per year for 10 years, the proportion of the equalization envelope (0.84%) could reach the historical average of 1.01% of Canada's nominal GDP.

Sources: Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

This proposal would achieve the objective of refocusing the equalization program on its role by ensuring that the "traditional program" is applied thus providing the recipient provinces with the same fiscal capacity per capita after equalization.

— In addition, the proposal would enable the cost of the program as a proportion of Canada's nominal GDP to return to its historical average by 2024, while limiting the consequences of a sharp increase in the envelope for the federal government.

In the interests of fairness, Québec proposes that this fair method be applied.

4. THE FEDERAL GOVERNMENT IS PULLING BACK FROM HEALTH AND SOCIAL PROGRAMS

4.1 Substantial decline in federal funding

In 2013-2014, the federal government funded 22.3% of the provinces' health spending by means of the Canada Health Transfer (CHT). Putting a cap on the CHT will further reduce this share over time. Indeed, a number of studies have confirmed this situation.

- A 2013 study[7] carried out jointly by the Society of Actuaries and the Canadian Institute of Actuaries which purpose was to assess the sustainability of Canada's health care system points out that the CHT funded roughly 21.0% of health spending by the provinces and territories in 2012.
  - With the CHT currently growing at 6% per year, the federal government would fund 22.9% of the provinces' and territories' health spending on average in 2037, a level slightly higher than in 2012.
  - However, with a cap on the CHT, the federal government would fund 14.3% of the provinces' and territories' health spending on average in 2037, a level significantly lower than in 2012.

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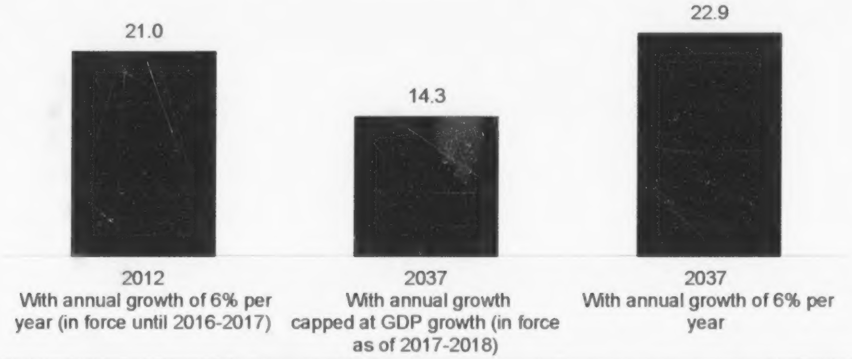
[7] SOCIETY OF ACTUARIES AND CANADIAN INSTITUTE OF ACTUARIES, *"Sustainability of the Canadian Health Care System and Impact of the 2014 Revision to the Canada Health Transfer"*, September 2013.

CHART F.10

Share of CHT funding in provincial health spending
(per cent)



Sources: Society of Actuaries, Canadian Institute of Actuaries and Ministère des Finances et de l'Économie du Québec.

— In her *Fiscal Sustainability Report 2013*,[8] the Parliamentary Budget Officer indicates that the CHT will amount to an average of 17.9% of health spending by the other orders of government[9] during the period from 2012-2013 to 2036-2037 and then decline to 13.7% over the subsequent 25 years.

The federal share of health spending funding will therefore continue to decline while costs keep going up. In this regard, it is worth noting that:

— until the mid-1970s, the federal government covered half of the eligible spending of the provinces on health, post-secondary education and social services;

— in 1977, the federal government adopted "block" funding for health and post-secondary education (implementation of Established Programs Financing for health and education) to limit growth in its spending. At that time, the federal government funded 25% of the provinces' eligible spending on health and post-secondary education.

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[8] OFFICE OF THE PARLIAMENTARY BUDGET OFFICER, *Fiscal Sustainability Report 2013*, September 26, 2013, in Our Publications on the website of the Office of the Parliamentary Budget Officer, www.pbo-dpb.gc.ca/en/.

[9] The other orders of government are provincial and territorial governments, local governments and Aboriginal public administrations.

In a context where the provinces' largest spending item is health, controlling spending in this area is crucial. Indeed, in its November 2013 update of economic projections,[10] the federal government admits that the provinces are making significant efforts to limit the rise in health costs.

> Indeed, over recent years, there have been greater, and sometimes concerted, efforts to control health spending growth on the part of the provinces through actions that will likely have a lasting dampening effect on health spending growth.

With the provinces making significant efforts to limit their health spending growth, it is up to the federal government to do its fair share. Accordingly, Québec considers that the federal government should contribute more fairly to the provinces' health spending by covering 25% of such spending.

Lastly, it is worth noting that in December 2011, the federal government decided to maintain the annual growth of the Canada Social Transfer (CST) at 3% as of April 1, 2014.

- Accordingly, the CST envelope will remain below its 1994-1995 level, i.e. the level before the federal cuts, taking inflation into account. This under-funding represents a shortfall of roughly $800 million per year for Québec.

4.2 Unjustified unilateral decisions concerning health

The Health Accord and Québec's asymmetrical health agreement reached in 2004 will expire on March 31, 2014. Under these agreements, the CHT grew by 6% per year. Beginning in 2014-2015, new rules will apply to the CHT, as decided unilaterally by the federal government in December 2011.

- A cap tied to Canada's nominal GDP will apply to the CHT as of 2017-2018, subject to a floor of 3%.
- The CHT envelope will be allocated on a purely per capita basis as of 2014-2015 (the value of tax points transferred to the provinces in 1977 will no longer be taken into account).

These changes will create substantial losses for many provinces. For Québec, the losses are estimated at $9.7 billion from now until 2024-2025.

- Putting a cap on the CHT will represent a revenue shortfall estimated at $6.8 billion.
- Removing tax points from the allocation of the CHT will result in a revenue shortfall of $2.9 billion.

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[10] DEPARTMENT OF FINANCE CANADA, *Update of Economic and Fiscal Projections*, November 12, 2013, p.69.

TABLE F.3

Impact for Québec of changes to the CHT

(millions of dollars)

	2014-2015	2017-2018	2020-2021	2024-2025	Cumulative
Decline in growth of the CHT	—	–126	–663	–1 759	–6 762
Equal per capita allocation	–208(1)	–242	–276	–333	–2 933
TOTAL	**–208**	**–368**	**–939**	**–2 092**	**–9 695**

(1) Had the 2007 federal government commitment been maintained, Québec would receive a protection payment of $208 million in 2014-2015 to offset any loss.

Source: Ministère des Finances et de l'Économie du Québec.

❑ Implementation of a CHT cap in 2017-2018

— Since 2004, the CHT has grown by 6% per year and will continue to do so until 2016-2017. Beginning in 2017-2018, the envelope will grow at the same rate as Canada's nominal GDP, subject to a floor of 3%.

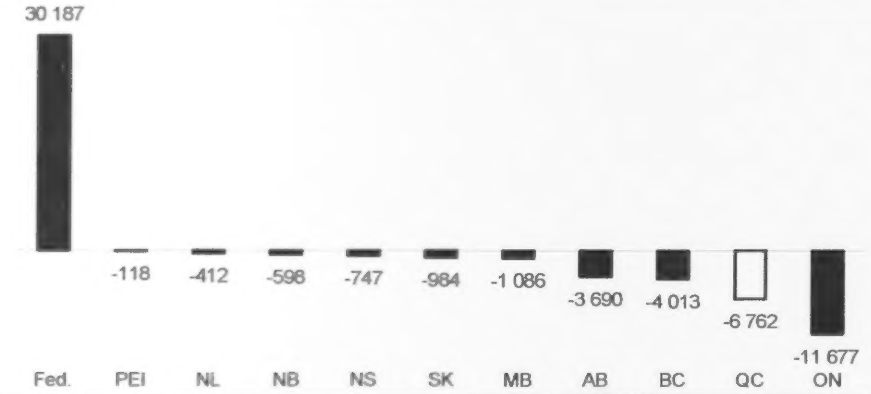
— Putting a cap on the CHT will result in major losses for each province while enabling the federal government to make substantial savings estimated at $30.2 billion from 2017-2018 to 2024-2025.

— At the same time, Québec will have to deal with a revenue shortfall of $6.8 billion (average annual loss of $845 million), second only to Ontario's loss.

CHART F.11

Cumulative impact of CHT growth declining to that of nominal Canadian GDP, from 2017-2018 to 2024-2025

(millions of dollars)



Note: The total of the transfers does not correspond to the total CHT envelope because the territories are not represented in the table.

Source: Ministère des Finances et de l'Économie du Québec.

❑ Envelope allocated on a equal per capita basis as of 2014-2015

Until 2013-2014, the CHT consisted of a cash transfer and a transfer of tax points ceded to the provinces in 1977 whose total (total entitlements) was allocated on a per capita basis.

— Including tax points in the allocation of the CHT envelope would enable those provinces which the value of their tax points is lower to receive a higher cash transfer. In other words, it would enable the less affluent provinces to receive a higher cash transfer.

However, as of 2014-2015, the value of tax points will no longer be taken into account with the result that the CHT envelope will be allocated on a purely per capita basis. Only one province will benefit from this change, at the expense of the other provinces, namely Alberta with an estimated gain of $923 million in 2014-2015. This change to the formula will not cost the federal government anything since it simply changes how the envelope is redistributed among the provinces.

— A study done in 2013[11] confirms that the "province that will end up in the best position is Alberta, who can expect virtually no change to the cumulative CHT cash transfers it will be receiving over the entire 25-year projection period [...]".

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[11] SOCIETY OF ACTUARIES AND CANADIAN INSTITUTE OF ACTUARIES, *Sustainability of the Canadian Health Care System and Impact of the 2014 Revision to the Canada Health Transfer*, September 2013, p. 56.

TABLE F.4

Impact of removing tax points from the allocation of the CHT – 2014-2015

(millions of dollars)

	New formula (no tax points)	Old formula (with tax points)	Difference
Alberta	3 726	2 803	923
North West Territories	40	33	7
Yukon	33	33	0
Nunavut	32	35	–3
Prince Edward Island	132	136	–4
Saskatchewan	1 020	1 034	–14
New Brunswick	685	703	–18
Nova Scotia	850	873	–23
Manitoba	1 156	1 188	–32
Newfoundland and Labrador	478	514	–36
Québec	**7 419**	**7 627**	**–208**
British Columbia	4 190	4 437	–247
Ontario	12 339	12 685	–346
Canada	**32 100**	**32 100**	**0**

Source: Ministère des Finances et de l'Économie du Québec.

Removing tax points from the allocation of the CHT means that for seven provinces, CHT growth is estimated at less than 3% between 2013-2014 and 2014-2015, including 2.7% for Québec. However, even if the amount of the CHT does not decline from one year to the next, except for Newfoundland and Labrador, CHT growth remains insufficient considering the rise in health costs.

TABLE F.5

CHT growth for the provinces, 2013-2014 to 2014-2015

(millions of dollars and per cent)

	2013-2014	2014-2015	Growth rate
Newfoundland and Labrador	488	478	–2.1
Prince Edward Island	129	132	2.3
Nova Scotia	835	850	1.8
New Brunswick	670	684	2.1
Québec	**7 225**	**7 419**	**2.7**
Ontario	11 994	12 339	2.9
Manitoba	1 121	1 156	3.1
Saskatchewan	961	1 020	6.1
Alberta	2 579	3 726	44.5
British Columbia	4 185	4 190	0.1
Canada	**30 283**(1)	**32 100**(1)	**6.0**

Note: The total of the transfers does not correspond to the total CHT envelope because the territories are not represented in the table.

Source: Ministère des Finances et de l'Économie du Québec.

Protection payments: the federal government breaks its promise

The federal government's decision to no longer take the value of tax points into account in the allocation of the CHT as of 2014-2015 was announced in its 2007 budget.[1] At that time, it undertook to make a protection payment calculated so that no province would receive a smaller CHT payment than what it would have received had the value of tax points been included in the allocation of the envelope.

- Under this approach, the provinces and territories should have received a protection payment estimated at $930 million in 2014-2015 (as shown in Table F.4), including $208 million for Québec, which corresponds to the total losses of the provinces.

However, the federal government broke its 2007 commitment by announcing in 2011 a less generous protection payment for the provinces.

- Only Newfoundland and Labrador will be eligible for such a protection payment, estimated at roughly $10 million in 2014-2015, since its share of the CHT has declined between 2013-2014 and 2014-2015 as shown in Table F.5.

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[1] DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007. Aspire to a Stronger, Safer, Better Canada*, March 19, 2007, p. 115.

4.3 A fairer allocation of the Canada Health Transfer (CHT)

Many provinces will face major budget challenges because of demographic changes in particular: significant aging of the population together with slower population and workforce growth. However, these demographic changes will be more acute for some provinces than for others. For example:

- in Québec, the percentage of the population age 65 or over is 17.0% in 2014 and is estimated to reach 24.5% in 2030;
- in New Brunswick, 18.2% of the population is age 65 or over in 2014 and this percentage is estimated to reach 27.9% in 2030;
- Alberta is in a much more favourable situation with corresponding percentages of 11.5% in 2014 and 18.7% in in 2030.

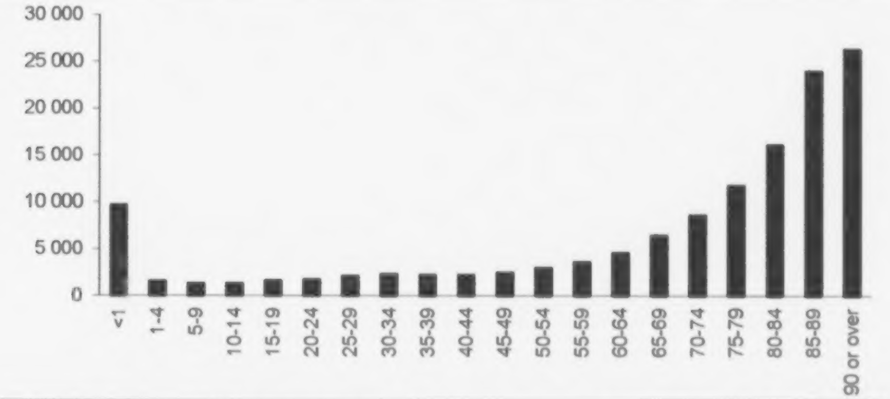
Certain studies indicate that it costs from five to six times more to care for people age 65 or over than those under age 65. Accordingly, in a context where population aging is more acute in some provinces than others, an allocation of the CHT that does not take the distribution of persons age 65 or over into account would be unfair.

— In an economic report on Canada published in June 2012,[12] the Organization for Economic Cooperation and Development (OECD) examined the changes announced by the federal government in December 2011. The report notes that given that it costs on average six times more to care for persons age 65 or over than others, a purely per capita allocation would favour provinces with a younger population to the detriment of those whose population is aging faster.

— In an analysis published in *Policy Options* in 2012,[13] the authors studied the breakdown of health costs by age bracket using data from the Canadian Institute for Health Information and determined that on average it costs five times more to care for a person age 65 or over than for a person under age 65. The authors conclude that the new allocation of the CHT is unfair and that the demographic weight of persons age 65 or over must be taken into account in the allocation of the CHT.

CHART F.12

Average per capita health spending of the provinces and territories by age group – 2011
(dollars)



Sources: Canadian Institute for Health Information and Ministère des Finances et de l'Économie du Québec.

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[12] OECD, *OECD Economic Surveys Canada*, June 2012, p. 17.

[13] Jean-Pierre Aubry, Pierre Fortin and Luc Godbout, "Revoir le transfert fédéral en santé pour tenir compte du poids démographique des aînés", in *Policy Options*, June-July 2012, p. 102-106.

Consequently, a purely per capita allocation would imply that a province with an older population would receive a transfer that is too small and that a province with a younger population would receive a transfer that is too large. Accordingly, Québec is asking that the demographic weight of persons age 65 or over be taken into account in the allocation of the CHT.

4.4 An oft-repeated request concerning the shortfall regarding social programs

In December 2011, the federal government decided to maintain the annual growth of the CST at 3% as of April 1, 2014.

Accordingly, the CST envelope will remain below its 1994-1995 level, i.e. the level before the federal cuts, taking inflation into account. This under-funding represents an annual shortfall of roughly $800 million for Québec.

— Québec is asking that the amount of the CST envelope be restored to its 1994-1995 level adjusted for inflation.

In addition, Québec considers that the "social assistance" component of the CST must be allocated more fairly among the provinces to reflect the number of recipients of social assistance.

— In the event of an economic slowdown, a purely per capita allocation would favour provinces with fewer social assistance recipients compared to those where the growth in the number of social assistance recipients is greater.

5. QUÉBEC IS WAITING FOR AN INFRASTRUCTURE PLAN THAT UPHOLDS ITS JURISDICTIONS

5.1 The federal government is dragging its feet

In March 2013, the federal government announced a new Building Canada plan (BCP) for the period 2014-2015 to 2023-2024, following up on the 2007-2014 BCP whose main infrastructure programs will end on March 31, 2014.

— The new BCP, with funding of $47.5 billion of new money covering a 10-year period for Canada as a whole, will consist of a number of programs with different methods for allocating funds to the provinces.

However, it took the federal government almost a year to provide the provinces with certain information, in particular on the amount attributed and the parameters of the new programs.

— Clearly, the federal government dragged its feet for almost a year before announcing similar parameters and procedures modelled on the 2007-2014 BCP.

— The proposed federal approach will inevitably result in a very cumbersome process requiring the piecemeal negotiation of dozens of agreements.

Had the federal government followed the approach proposed by Québec, i.e. pay the funds under the new plan as a "block" transfer, projects would have been ready to start in the spring of 2014. But, instead of taking the more efficient route and learning from past experience, the federal government prefers to negotiate on a piecemeal basis, enter into myriad agreements and duplicate the work of the provinces.

Federal funding: a small share of the funds Québec is devoting to its infrastructure projects

The new BCP will have $47.5 billion in funding over 10 years for all the provinces and territories, while for the same period, the Québec Infrastructure Plan (QIP) has funding of $92.3 billion.

- Were Québec to obtain its demographic share (23.1%) of the new federal funds, i.e. $11 billion, this would represent 11.9% of the QIP, a small part of what Québec is allocating to maintain and renew its infrastructures.
- It should be noted that the federal government derives substantial revenue from the spinoffs from these investments.

Québec expects that the federal funding dedicated to infrastructures will support the QIP and, consequently, contribute to achieving the QIP's priorities since Québec has specific knowledge of its infrastructure needs.

5.2 Québec expects a "block" transfer that meets its priorities and jurisdictions

In addition to complying with Québec's jurisdictions and ensuring adequate visibility for the federal government, the "block" transfer has the following advantages, among others:

- it is simple, transparent and predictable;
- it avoids duplication and delay caused by negotiating multiple agreements;
- it simplifies the terms of the launch, implementation, monitoring and accountability of projects.

For these reasons, Québec reiterates that the most effective approach is that it receive the funds of the new BCP as a "block" transfer rather than under several administrative agreements.

It should also be noted that this request for a "block" transfer seeks to avoid a number of problem situations that arose during the implementation of the 2007-2014 BCP, in particular:

- drawn-out negotiation of agreements;
- approval of projects on a piecemeal basis depending on federal program criteria, delaying the beginning of work;
- program criteria that alter Québec's priorities.

Québec's controls are sufficient according to the experts

The Independent Blue Ribbon Panel on Grant and Contribution Programs was mandated, by the President of the federal Treasury Board, to "provide advice on how to achieve strong accountability for the funds spent on grants and contributions... while allowing for their efficient management and effective access to them."

In its December 2006 report,[1] the panel was to study in particular the "Infrastructure Program [...] where federal funding for shared capital projects is passed through the hands of the provincial governments." On this matter, the panel reached the following conclusion:

> In the case of a provincial or territorial government, for example, where audit standards and capacities may well be as high as those of the federal government, it seems pointless and, indeed, redundant, for the federal government to impose audit obligations in addition to those of the recipient government.

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[1] INDEPENDENT BLUE RIBBON PANEL ON GRANT AND CONTRIBUTION PROGRAMS, *From Red Tape to Clear Results*, December 2006, Chapter 1, "Grants and Contributions", p. 9.

5.3 A fair share of funds

One of the components of the new 2014-2024 BCP is the Building Canada Fund with $14 billion divided between a "National Infrastructure Component" and a "Provincial-Territorial Infrastructure Component", as well as the $20-billion Gas Tax Fund with the addition of $1.8 billion from the federal government's proposed indexation of this measure.

- The funds of the "Provincial-Territorial Infrastructure Component" ($10 billion) will consist of a base funding allocation with the balance to be allocated in proportion to population.
- The funds of the "National Infrastructure Component" ($4 billion) will be allocated on a merit basis, i.e. depending on the federal government's criteria.

☐ The Building Canada Fund (BCF)

Québec considers that the federal funds that will be allocated on a "merit" basis, i.e. depending on federal priorities, are unfair in addition to creating a deplorable situation by forcing the provinces to compete against each other. Accordingly, this type of allocation must be rejected.

Consequently, Québec is asking for its fair share of the BCF in proportion to its demographic weight both for the "Provincial-Territorial Infrastructure Component" and the "National Infrastructure Component".

- A share of the "National Infrastructure Component" consistent with its demographic weight would ensure that Québec obtains the funds needed to finance the light rail system for the Champlain Bridge and the upgrading of Highway 185 in the Bas-Saint-Laurent region to a divided highway.

☐ The Gas Tax Fund

The Canada-Québec Agreement relating to the transfer of the excise tax on gasoline reached in 2005 and amended in 2009 is an example of what the Québec government sees as a satisfactory agreement. Accordingly, as soon as the federal government announced that it intended to renew the Gas Tax Fund, Québec stated that it was prepared to sign an agreement modelled on the actual agreement, to which new funding would be added.

Negotiations are ongoing and Québec is confident that a satisfactory agreement that upholds its jurisdictions can be reached by April 1, 2014.

The 2014 construction season is slipping away

The time elapsed since the announcement of the new BCP makes it increasingly likely that many infrastructure projects that will not receive federal funding for work during the 2014 construction season will be deferred.

- Municipalities will have to plan the work they will carry out in the summer of 2014 without being able to count on the federal assistance already announced.
- Some projects will not be started, for fear that they may subsequently be considered ineligible for federal funding.

Québec considers that the federal government must speed up the negotiation process and transfer the stipulated amounts through a "block" transfer mechanism to minimize negative repercussions in Québec.

6. THE CANADA-QUÉBEC LABOUR MARKET AGREEMENT: QUÉBEC ASKS THAT ITS JURISDICTION BE UPHELD

6.1 An agreement meets Quebecers' needs

In 2009, Québec entered into the Canada-Québec Labour Market Agreement (LMA) for the period 2008-2009 to 2013-2014. When it expires, on March 31, 2014, Québec will have received a total of roughly $700 million, i.e. almost $116 million per year.

LMA funding enables Québec to reach a large potential pool of workers, consisting of 200 000 social assistance recipients not eligible to employment insurance and 500 000 workers without basic training or recognized qualifications. The training measures offered enable participating individuals to obtain the required qualifications and improve their employability.

Québec's actions have produced convincing results that help raise the employment rate and the pay of participants.

— The measures targeting recipients of last-resort financial assistance have helped improve their chances of finding a job by 50%.

— Among businesses that have made use of Emploi-Québec programs, 85% state that the training their personnel received has significantly improved their productivity and motivation at work.

6.2 The impacts of implementation of the Canada Job Grant (CJG)

As part of its March 2013 budget, the federal government unilaterally announced the creation of the CJG, an initiative to be funded by reducing the funding of the LMA by 60%.

The implementation of the CJG would deprive the Québec government of roughly $70 million per year to administer its own programs to help workers integrate the labour market.

— Roughly 130 educational organizations and 500 employability development organizations and youth employment centres would have to reduce their service offering.

— Québec companies would also be affected since 10 000 companies, of which almost 75% have fewer than 50 employees, would receive fewer services from Emploi-Québec.

Implementation of the CJG jeopardizes efficient programs that improve the employability and labour market participation of a variety of people including young people, handicapped people, new immigrants, social assistance recipients and older workers.

To have all the required tools and flexibility, and to avoid duplication, Québec is demanding the complete renewal of the 2008-2014 LMA under the existing terms and conditions.

Support for the LMA

For more than 15 years, Québec has had a joint partnership structure that enables employers to participate actively in implementing and funding on-the-job workforce training measures in particular through the obligations on businesses under the *Act to promote workforce skills development and recognition* (1% law). Since the federal announcement, many players have expressed their support for the Québec government's initiatives.

- On May 15, 2013, the Commission des partenaires du marché du travail passed a unanimous resolution supporting the Québec government in its request that the federal government renew the 2008-2014 LMA under the existing terms and conditions.
- Every labour market partnership regional council throughout Québec passed such a resolution.

In addition, the National Assembly has passed three unanimous motions, on March 13 and 28, 2013 as well as June 12, 2013, also asking the federal government to renew the LMA under the existing term and conditions.

7. OTHER PRIORITY ISSUES TO BE SETTLED FAIRLY

In addition to Québec's positions mentioned above regarding the equalization program, the CHT, the CST, infrastructure and the LMA, Québec is seeking fair settlement in the near future of certain priority issues.

7.1 Treatment of Hydro-Québec's dividends in the equalization program

Since 2008, the federal government has applied different treatment in the equalization program to the dividends paid by Hydro One, an Ontario government-owned corporation that transmits and distributes electricity.

- The dividends this government-owned corporation derives from transmission and distribution activities have been included in the corporate income tax base since 2008.
- This decision by the federal government reduced Ontario's relative fiscal capacity for the natural resources base. Accordingly, since 2008, its equalization payments have risen at the expense of the other recipient provinces, Québec in particular, because of the cap on the equalization envelope.

Yet Hydro-Québec's dividends from the same activities are still considered under the natural resources base.

- This unfair treatment deprives Québec of more than $330 million per year.

Although Québec has provided all the information needed to make the requested change, the federal government did not correct the treatment of Hydro-Québec's dividends as part of the 2014 renewal. Accordingly, Québec is once again demanding fair treatment of Hydro-Québec's dividends.

7.2 Systematic use of protection payments benefits everyone

The federal government has made protection payments since 2010-2011 so that the total of a province's major transfers (CHT, CST and equalization) does not decrease compared to the preceding year.

Québec obtained protection payments twice, i.e. a payment of $369 million in 2011-2012 and one of $362 million in 2012-2013.

However, on December 16, 2013, the federal government announced the amounts of the major federal transfers for each province. At the same time, it ended protection payments, saying they were a temporary measure adopted in response to the effects of the global economic slowdown.

Even though Québec would not have received a protection payment in 2014-2015, it continues to support this principle for as long as caps on the equalization program are maintained. As a result of this decision, only Ontario will be deprived of a protection payment, which would have been $641 million in 2014-2015.

7.3 Favourable settlement in the near future of the dispute pertaining to the revenue stabilization program

The revenue stabilization program, established in 1967, allows a province to qualify for federal compensation when it suffers a decline in its revenue because of the economic situation that is unrelated to changes in the province's tax structure.

— Under this program, the Québec government determined that it qualified for a stabilization payment of $127 million for 1991-1992 and filed suit against the federal government after being denied the payment by the Minister of Finance of Canada.

Despite two decisions in favour of Québec by the Federal Court and the Federal Appeal Court in 2007 and 2008 respectively, the federal government has yet to make this payment to Québec.

Québec is asking for quick resolution of the dispute regarding the revenue stabilization program, a dispute that has lasted almost 20 years despite two judgments in favour of Québec.

CONCLUSION

While the federal government's long-term budgetary situation will become increasingly favourable, in particular because it unilaterally changed to its advantage how the major federal transfers to the provinces have operated since 2008, the provinces will have to deal with the federal government's financial pullback that will reduce their ability to maintain the quality of public services.

So that the provinces, including Québec, can recover the leeway lost to the federal government in recent years, Québec is asking that the federal government:

- bring back the 2007 equalization formula since the caps imposed on the program in 2008 have deprived the recipient provinces of revenue exceeding $18 billion and gradually restore, over 10 years, the equalization envelope to its historical level as a proportion of Canada's nominal GDP;
- increase its financial contribution for the provinces' health spending to 25% within 10 years by means of the CHT and to take into account the demographic weight of persons age 65 or over in the allocation of the CHT;
- restore the CST envelope to its 1994-1995 level, taking inflation into account.

Moreover, the federal government must move urgently to remove obstacles delaying the payment of substantial funds to Québec.

- To accelerate implementation of the Building Canada plan (BCP) and avoid jeopardizing projects that must be started in 2014, Québec is asking the federal government to pay its fair share of the BCP corresponding to its demographic weight using the "block" transfer mechanism.
- Québec is asking that the 2008-2014 Labour Market Agreement be renewed in its entirety under the existing terms and conditions, and in compliance with its jurisdictions.
- Lastly, Québec wants the federal government to quickly and definitively settle certain disputes that have dragged on too long.

The re-emergence of the fiscal imbalance is bad news both for the provinces, which will face difficult budgetary choices, and their populations, which expect to receive services of adequate quality. The federal government will have more than enough financial leeway to take the corrective measures Québec is seeking, which will avoid plunging the federal government and the provinces once again in a dynamic that is sterile and unproductive for the population as a whole.

Section G

THE FIGHT AGAINST TAX EVASION AND UNREPORTED WORK

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INTRODUCTION

For a number of years, the government has been fighting tax evasion and unreported work in every sphere of the economy. Among other things, these efforts improve fairness for taxpayers who pay their full income tax and clean up business practices in certain sectors.

Despite the many initiatives implemented by the government, tax evasion, money laundering, collusion and corruption persist.

Consequently, to support its actions in the fight against tax evasion and step up recovery of the revenues owed to it, the government is announcing new initiatives aimed, in particular, at:

- stepping up controls, particularly in the construction industry;
- improving revenue collection through the installation of sales recording modules (SRMs) in bars and resto-bars.

In addition, the government is proposing to expedite penal case management.

These new initiatives will increase revenues by more than $60 million a year as of 2014-2015.

TABLE G.1

Revenue increase related to the new measures to fight tax evasion
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Stepped-up controls in construction	16	21	21
Installation of bar SRMs in the bar and resto-bar sector	25	42	42
Expedited case management in financial penal matters and other actions	20	20	20
TOTAL	**61**	**83**	**83**

Source: Ministère des Finances et de l'Économie du Québec.

1. THE FIGHT AGAINST TAX EVASION AND UNREPORTED WORK IN THE CONSTRUCTION INDUSTRY

Construction is a major economic sector in Québec, from the standpoint of both investments and jobs.

— In 2012, public and private capital spending in Québec's construction sector totalled a little over $51 billion, accounting for nearly 14% of gross domestic product.

— In addition, the sector represents 244 300 jobs, that is, 1 out of 20 jobs.

Furthermore, annual tax losses in the construction sector stand at an estimated $1.5 billion,[1] accounting for more than 40% of tax losses in Québec in 2008.

— These losses stem in large part from unreported hours in the construction sector.

Despite the many initiatives implemented since the mid-1990s, tax evasion, money laundering, collusion and corruption persist. In fact, this has been acknowledged by several representatives of the construction sector.

The government therefore sees a need for new measures in the fight against unreported work.

1.1 New measures to fight unreported work

The government is announcing the implementation of new initiatives focused on three main areas:

— introducing new requirements for private construction contracts;

— tackling false-billing fraud;

— stepping up certain control measures.

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[1] This estimate does not take into account losses due to false-billing fraud, collusion and misappropriation of funds.

1.1.1 New requirements for private construction contracts

Tax debts—outstanding amounts of income tax and other taxes—of construction companies were estimated at over $600 million in 2009-2010.

To, among other things, limit the growth of these debts, an attestation of tax compliance issued by Revenu Québec for the purpose of entering into a contract of $25 000 or more with a government department, a public body, a government corporation or a municipality has been gradually implemented since June 1, 2010.

— Revenu Québec has already recovered over $142 million in tax debts since the implementation of this measure.

To further reduce tax losses associated with the construction sector, the government is announcing that the requirements relative to the attestation from Revenu Québec for public contracts will also apply to private construction contracts of $25 000 or more.

Integrity and probity requirements with respect to public contracts

Attestation from Revenu Québec

The attestation from Revenu Québec is a document confirming that a company, on the date of its request, has filed the returns required under Québec tax laws and has no overdue accounts with Revenu Québec.

The attestation from Revenu Québec is obtained on the agency's website through the authentication service of the Québec government, clicSÉQUR.

Authorization to enter into contracts

To bring in even stricter requirements of integrity and probity, the *Integrity in Public Contracts Act*[1] was assented to on December 7, 2012.

Under the Act, a company seeking to enter into a contract with a public body, government corporation or municipality must show that it and its officers conduct their affairs with integrity and deserve the public's trust.

In addition to exclusion, further to a conviction for certain specified violations, the Act considers other items to check whether the public's trust is has been undermined by the company's lack of integrity, in particular when it has behaved reprehensibly in conducting its affairs.

The Autorité des marchés financiers is responsible for issuing an authorization to enter into contracts to any company seeking to do business with the government. The authorization may be withdrawn at any time if the company fails to satisfy the conditions under which it was issued. The Unité permanente anticorruption (UPAC), working with the Sûreté du Québec and Revenu Québec, is charged with checking the the company's integrity and probity.

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[1] S.Q. 2012, chapter 25.

❑ Implementation of the attestation from Revenu Québec respecting private construction sites

Thus, as of fall 2014, before entering into a construction contract of $25 000 or more, a contractor holding a valid licence from the Régie du bâtiment du Québec will be required to obtain an attestation from Revenu Québec and provide it to the recognized client.

The recognized client will then be required to validate, on Revenu Québec's website, the authenticity of the attestation obtained from the contractor.

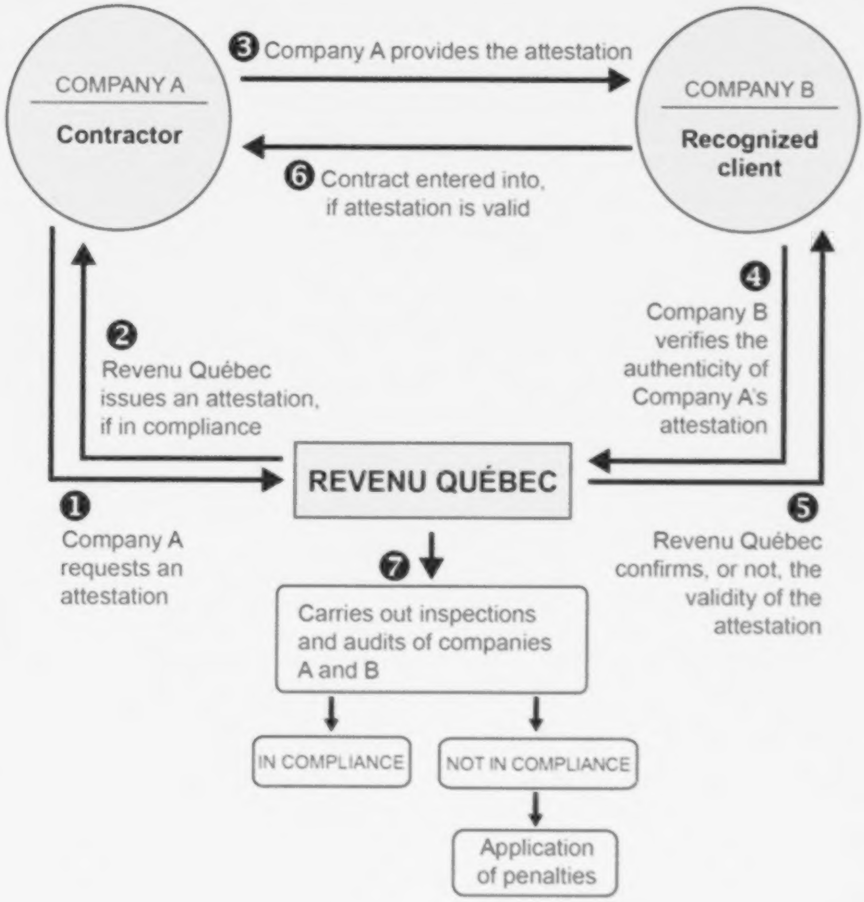
These requirements apply to all levels of subcontracting. A company can be both a recognized client and a subcontractor, and must meet the respective requirements of these statuses.

The attestation from Revenu Québec is valid for a period of 90 days as of the date on which it is issued.

At the end of the 90-day validity period, the contractor will be required to renew the attestation from Revenu Québec. A new valid attestation will then have to be provided, and so on until the end of the contract.

ILLUSTRATION G.1

How the attestation from Revenu Québec works respecting private construction sites


❸ Company A provides the attestation
COMPANY A
Contractor
COMPANY B
Recognized client
❻ Contract entered into, if attestation is valid
❷ Revenu Québec issues an attestation, if in compliance
❹ Company B verifies the authenticity of Company A's attestation
REVENU QUÉBEC
❶ Company A requests an attestation
❺ Revenu Québec confirms, or not, the validity of the attestation
❼
Carries out inspections and audits of companies A and B
IN COMPLIANCE
NOT IN COMPLIANCE
Application of penalties

Source: Revenu Québec.

A contractor who meets all the conditions for issuing an attestation will obtain one easily and rapidly. The same is true for a recognized client with respect to authenticating the attestation from Revenu Québec received from the contractor.

- With the Québec enterprise number (NEQ), a contractor who requests an attestation will receive it in less than ten seconds.
- After obtaining the attestation from the contractor, the recognized client will need less than one minute to validate the authenticity of the attestation with Revenu Québec.

Penalties will apply if these requirements are not met.

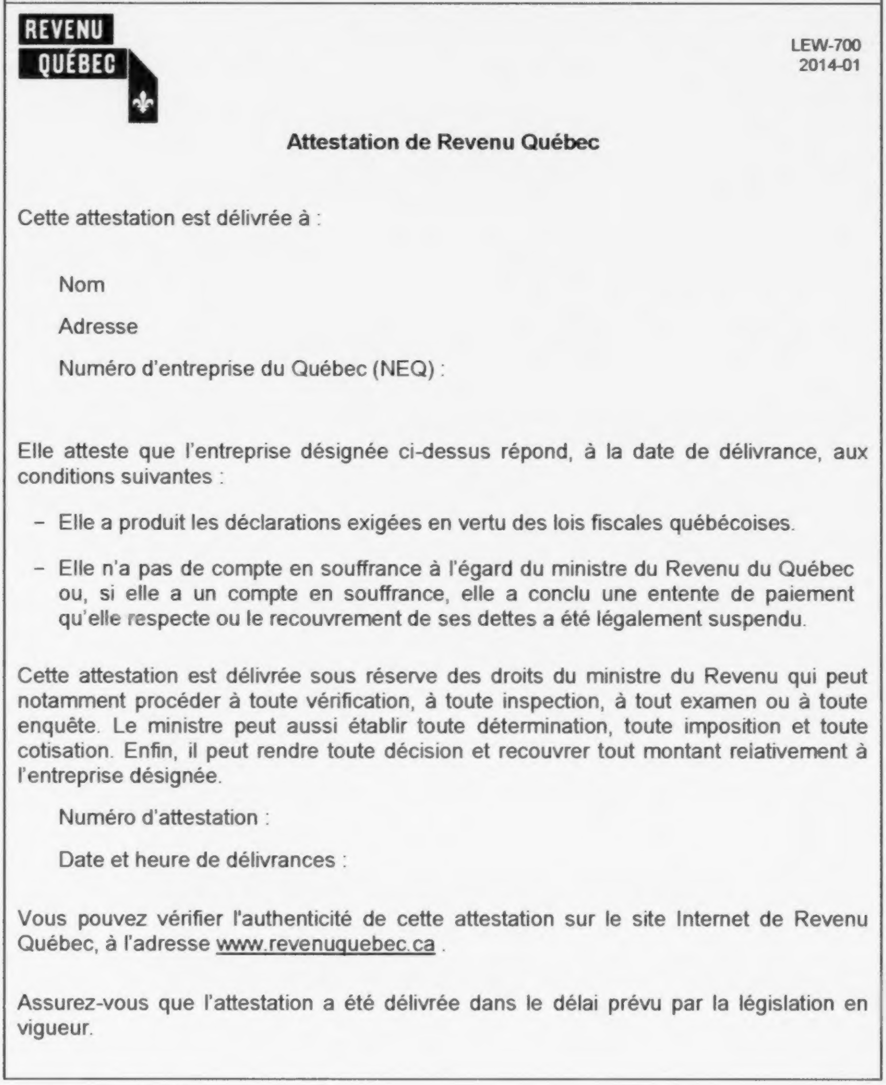
Through this measure, Revenu Québec will:

- boost the compliance of construction companies;
- reduce tax debts in the construction sector;
- detect irregularities rapidly and take action immediately, in real time;
- curb excessive subcontracting;
- curtail unreported work.

Further information on the implementation of this measure will be announced at a later date.

ILLUSTRATION G.2

Attestation from Revenu Québec



REVENU QUÉBEC

LEW-700
2014-01

Attestation de Revenu Québec

Cette attestation est délivrée à :

Nom

Adresse

Numéro d'entreprise du Québec (NEQ) :

Elle atteste que l'entreprise désignée ci-dessus répond, à la date de délivrance, aux conditions suivantes :

- Elle a produit les déclarations exigées en vertu des lois fiscales québécoises.
- Elle n'a pas de compte en souffrance à l'égard du ministre du Revenu du Québec ou, si elle a un compte en souffrance, elle a conclu une entente de paiement qu'elle respecte ou le recouvrement de ses dettes a été légalement suspendu.

Cette attestation est délivrée sous réserve des droits du ministre du Revenu qui peut notamment procéder à toute vérification, à toute inspection, à tout examen ou à toute enquête. Le ministre peut aussi établir toute détermination, toute imposition et toute cotisation. Enfin, il peut rendre toute décision et recouvrer tout montant relativement à l'entreprise désignée.

Numéro d'attestation :

Date et heure de délivrances :

Vous pouvez vérifier l'authenticité de cette attestation sur le site Internet de Revenu Québec, à l'adresse www.revenuquebec.ca .

Assurez-vous que l'attestation a été délivrée dans le délai prévu par la législation en vigueur.

Source: Revenu Québec.

1.1.2 New measure against false-billing fraud

False-billing fraud generates cash for use in collusion, corruption and payment of unreported work, such as unreported overtime.

- The purpose of such fraud is to enable a company registered for the Québec sales tax (QST) to fraudulently claim input tax refunds (ITRs) using fake invoices.

To fight this practice, the government is announcing more audits of applications for QST registration.

☐ Closer monitoring of at-risk registrations for sales tax

The government is announcing that, to more effectively detect companies that register for the QST for fraudulent purposes, Revenu Québec will monitor at-risk registrations more closely through:

- an increase in the number of construction companies audited;
- improved criteria for the selection of at-risk files;
- the inspection and audit of certain companies to ensure they are carrying out genuine economic activities, by:
  - validating the identity of shareholders and administrators.
  - verifying that the company has the ability to carry out activities.

Closer monitoring of at-risk registrations will enable Revenu Québec to:

- more readily detect at-risk companies and cancel their registration for the QST. As a result, fewer fraudulent companies financing unreported work will be active in the construction sector;
- reduce the number of companies that do not generate genuine activities;
- curtail fraudulent ITR claims;
- rapidly detect companies likely to engage in false-billing fraud.

Through these measures, QST registration applications will be better monitored.

1.1.3 Stepped-up government action

Action will be stepped up to curtail tax evasion and unreported work in the construction sector.

❑ More evening and weekend inspections

In summer 2013, representatives from the construction sector informed the government that the hours worked in evenings and on weekends are not reported in full.

Revenu Québec, the Commission de la construction du Québec, the Régie du bâtiment du Québec and the Commission de la santé et de la sécurité du travail will conduct more inspections and checks of large construction sites, new-construction sites and residential renovation sites in evenings and on weekends.

These interventions by government partners will enable them to detect unreported work, including unreported overtime and unlicensed work.

❑ Enhance awareness in the construction sector

Workers and contractors in the construction sector still do not have a clear idea of how much unreported work affects their fringe benefits.

Hours worked and reported to the Commission de la construction du Québec make it possible to determine:

- the insurance coverage provided under the MÉDIC Construction plan;
- contributions to the construction workers' pension plan;
- when a construction worker is eligible to retire.

The government will provide workers with more information on the negative effects of unreported work on their fringe benefits.

1.2 Summary of results since 2010-2011

Since 2010-2011, the actions, as a whole, taken in the fight against tax evasion and unreported work by the partners on the concerted action committee to counter the underground economy in the construction sector (ACCES construction) have:

- enabled nearly $1.2 billion, or $300 million a year, to be recovered;
- led to nearly 30 000 convictions for unreported work under the *Act respecting labour relations, vocational trainining and workforce management in the construction industry*[2] (statute R-20) and the *Building Act*.[3]

TABLE G.2

Summary of results in the fight against unreported work in the construction sector as at December 31, 2013
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014(1)	TOTAL
Tax component					
Tax recovery	222	315	402	258	**1 197**
Fines	0.4	1	1	0.2	**3**
Penal component					
Reports of offences (units)	9 820	10 091	10 378	5 940	**36 229**
Convictions (units)	8 096	8 418	8 527	4 821	**29 862**
Fines	4	4	4	3	**15**

Note: The results shown in the penal component relate to offences under statute R-20 and the *Building Act*, solely for unreported work.
(1) Results for the first nine months of 2013-2014.
Sources: Commission de la construction du Québec, Revenu Québec and Régie du bâtiment du Québec. Compilation by the Ministère des Finances et de l'Économie du Québec.

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[2] CQLR, chapter R-20.

[3] CQLR, chapter B-1.1.

1.3 Detailed results for 2013-2014

In the past year, initiatives by government partners to fight unreported work in the construction sector have taken various forms:

- more effective intervention on construction sites;
- joint operations in certain construction trades where tax evasion is more pervasive;
- stepped-up action on residential renovation sites.

TABLE G.3

Projects implemented in the construction sector
(results from April 1 to December 31, 2013)

Projects	Results
Broaden sustained presence on large worksites (target of 100 public and private worksites)	170 private and public worksites visited. 447 cases under examination for audit purposes. $76 million in direct and indirect tax recovery.
Intensive operations targeting certain at-risk trades (excavation, masonry and interior finishing)	$17 million in tax recovery.
Broaden joint operations in residential renovation, in particular in Laval, Rimouski and the Rivière-des-Prairies–Pointe-aux-Trembles borough of the Ville de Montréal	967 worksites visited.
Joint operations on worksites (target of 300)	283 joint visits carried out by three or more government partners.

Sources : Commission de la construction du Québec, Commission de la santé et de la sécurité du travail, Régie du bâtiment du Québec and Revenu Québec. Compilation by the Ministère des Finances et de l'Économie du Québec.

2. TAX AUDITS BY REVENU QUÉBEC

Revenu Québec is responsible for collecting revenue owing to the government and ensuring tax fairness. To that end, Revenu Québec must:

- foster voluntary tax compliance by maintaining quality services for taxpayers and simplifying the process for filing tax returns;
- develop innovative approaches and make use of new technologies to encourage non-compliant taxpayers to follow the tax rules.

To achieve these objectives, Revenu Québec must bolster its tax audits. To that end, Revenu Québec must constantly renew its procedures. New measures will therefore be implemented in 2014-2015.

2.1 New tax audit measures

To fight tax evasion even more effectively, the government is announcing the implementation of new measures for collecting revenue owing to the government.

2.1.1 Installation of sales recording modules in bars and resto-bars

Further to the Resto project, the government announced in Budget 2013-2014 that the sales recording module (SRM) technology, which facilitates tax compliance and makes for more efficient inspections and investigations, will be extended to other sectors.

Overall tax losses for bars and activities of restos-bars not covered by the measures currently applicable in the restaurant sector are estimated at over $75 million a year.

Installing SRMs in bars and resto-bars therefore seems like the logical extension of the measures taken in the restaurant sector.

- The solution therefore consists in extending the measure in place in some 20 000 restaurant establishments to some 6 100 establishments, including 3 300 bars and 2 800 restos-bars.

Essentially, the same additional measures implemented in the restaurant sector will be introduced in bars and resto-bars:

- the requirement to give customers a bill;
- the requirement to produce bills using an SRM;
- more inspection activities;
- a campaign to raise awareness about the importance for customers to have their bill in hand when they leave an establishment.

The SRMs will be deployed over a five-month period as of fall 2014.

As was the case when SRMs were installed in the restaurant sector, the government will bring in a subsidy program to fund the purchase of the devices.

These measures will restore healthy competition in the bar and resto-bar sector. In addition, Revenu Québec estimates that they will bring in revenues of over $40 million a year as of 2015-2016.

The particulars of this measure and the subsidy program will be disclosed at a later date[4].

Resto project

The Resto project is a concrete example of Revenu Québec's efforts to implement innovative tax audit measures. The project fosters voluntary tax compliance by companies and leads to an increase in self-assessment.

Installation of SRMs in restaurants enabled Revenu Québec and restaurateurs to update their tools and work methods.

To curb tax evasion in this sector and ensure that the taxes customers pay are in fact remitted to the government, restaurateurs are now legally required to:

- produce bills using an SRM;
- always give a bill to customers;
- produce a periodic sales summary and send it to Revenu Québec.

Since its inception, the project has reduced tax evasion by over $400 million.

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[4] It will be implemented in accordance with the Comprehension Integrated Tax Coordination Agreement between the Government of Canada and the Government of Québec.

2.1.2 Implementation of the attestation from Revenu Québec for employment agencies

In Budget 2013-2014, the government announced that it would require employment agencies to obtain an attestation from Revenu Québec, because of networks of unreported work that set themselves up as employment agencies.

That scheme enables them, in particular, to evade source deductions and social contributions paid by workers.

- The leaders of these networks exploit workers who often know little of their rights: They sometimes offer remuneration below the minimum wage, fail to comply with labour standards and deprive workers of social protection in the event of illness or job loss.

The government is announcing the following terms and conditions relative to this measure.[5]

- The attestation from Revenu Québec will be mandatory for employment agencies' contracts of $2 500 or more, as of fall 2014.
- Apart from the requirement to obtain and validate the attestation, client companies will be required, as of 2015, to enter, on a regular basis, the disbursements made to employment agencies.

If any of the requirements set forth in the new rules are not met, various penalties will apply.

The measure targets the schemes observed in this sector of activity, such as:

- unreported work;
- false-billing fraud;
- the use of nominees.

Furthermore, this measure will encourage self-assessment and the recovery of tax debts, as well as better protection for workers.

The application details will be specified at a later date.

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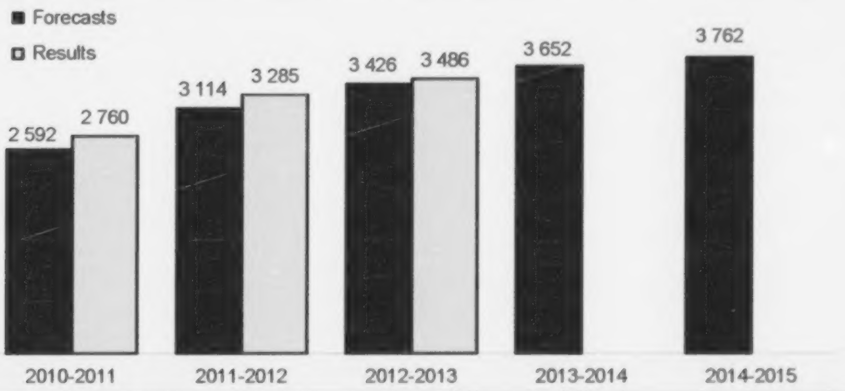
[5] See Illustration G.1 for more information on the attestation from Revenu Québec.

2.2 Tax recovery results in 2013-2014 and target for 2014-2015

Revenu Québec's tax recovery target is $3 652 million for 2013-2014 and $3 762 million for 2014-2015.

CHART G.1

Tax recovery at Revenu Québec
(millions of dollars)



Source : Revenu Québec.

☐ Preliminary tax recovery results in 2013-2014 as at December 31

As has been the case since 2010-2011, preliminary figures indicate that Revenu Québec is on track to achieve its tax recovery objectives for 2013-2014.

— As at December 31, 2013, tax recovery stood at $2 432 million, 93% of the anticipated target for that date.

TABLE G.4

Preliminary results of the fight against tax evasion – 2013-2014
(millions of dollars)

	As at December 31, 2013				
	Target	Results	Difference	Success rate	2013-2014 target
Tax recovery	2 625	2 432	–194	93	3 652

Note: Figures are rounded, so the differences may not match.
Source: Revenu Québec.

To achieve these targets, Revenu Québec implemented various projects, including the aggressive tax planning project and the attestation from Revenu Québec for public contracts.

The measures to fight aggressive tax planning target taxpayers who, by means of often complex tax avoidance transactions, try to avoid paying income tax or reduce the amount payable.

— Tax recovery under the project stood at $57 million as at December 31, 2013, whereas the target set for the period.

The attestation from Revenu Québec also played a role in achieving the tax recovery targets.

— As at December 31, 2013, 17 247 companies had requested an attestation from Revenu Québec; 39 926 attestations had been issued. As a result, 2 895 companies were able to bring their tax situation into compliance, for a value of $24 million. The project led to the recovery of more than $4.4 million in tax.

3. EXPEDITING OF CASE MANAGEMENT IN FINANCIAL PENAL MATTERS AND OTHER ACTIONS

3.1 Expediting of case management in financial penal matters

The fight against tax evasion and economic and financial crime remains a priority for the government. This involves working with the penal justice system to produce a deterrent effect, in order to recover unpaid amounts and build a sense of trust and fairness within the public.

In recent years, a number of large-scale initiatives and operations have been carried out to uncover economic and financial crime and tax evasion. These efforts have led to more penal prosecutions, including complex cases involving the recovery of several million dollars.

The substantial increase in the number of cases before the Court of Québec has substantially slowed penal case management. This backlog can hinder case flow, creating delays.

Sample situation stemming from the long waits in penal cases

On April 26, 2013, in *Agence du revenu du Québec* v. *Khoury*,[1] a case brought before the Court of Québec, the judge ordered a stay of proceedings. The attorneys of the three people accused of tax fraud in the case had filed a motion for a stay of proceedings, citing unreasonable delays.

The Court having put the institutional delays in the case at 51 months, the judge was of the opinion that excessive delays violated the rights of the accused, as defined in sections 7, 11*(b)* and 24(1) of the *Canadian Charter of Rights and Freedoms*. He stated the following in his judgment:

> The prejudice experienced by the applicants is directly related to the institutional delays. Nevertheless, the Court cannot simply accede to the government's allocation of resources and consequently find that the length of the delay is acceptable. The lack of institutional resources cannot be used to render the paragraph 11*(b)* guarantee meaningless.

The government incurred losses of between $30 million and $60 million in the case as a result of delays deemed unreasonable.

[1] *Agence du revenu du Québec* v. *Khoury*, 2013 QCCQ 4486 (CanLII).

Due to this increase in the number of cases, the government is proposing to boost case-management capacity in penal matters.

❑ Context

The substantial increase in the number of cases before the Court of Québec adds to the pressure on the justice system.

The number of penal cases brought before the courts as at December 31, 2013 by prosecutors with Revenu Québec, the Autorité des marchés financiers and the Directeur des poursuites criminelles et pénales testifies to this additional pressure.

- Over 9 400 cases for offences, brought by Revenu Québec, were backlogged or wending their way through the Court.
- The Autorité des marchés financiers accounted for 56 active cases. The cases are usually complex and take a relatively long time to be heard in court.[6]
- More than 73 000 cases brought by the Directeur des poursuites criminelles et pénales. Approximately 12 000 of them pertained to the construction sector.[7]

Furthermore, more than $665 million in fines was claimed in these cases.

TABLE G.5

Active penal cases as at December 31, 2013

	RQ(1)	AMF(2)	DPCP(3)	Total
Number of cases	9 418	56	73 701	**83 175**
Fines claimed ($M)	411	226	29	**666**

(1) Revenu Québec.
(2) Autorité des marchés financiers.
(3) Directeur des poursuites criminelles et pénales.
Source: Compilation by the Ministère des Finances et de l'Économie du Québec.

❑ Principal causes associated with the increase in and complexity of penal cases

Several factors explain the increase in and complexity of penal cases. The primary ones are:

- the broadening of mandates to fight tax evasion and economic and financial crime in a number of government departments and public bodies, and the creation of special investigative units;

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[6] For example, the hearing in the *Mount Real* case alone lasted ten months.

[7] Cases related to the *Building Act* (CQLR, chapter B-1.1) and the *Act respecting labour relations, vocational training and workforce management in the construction industry* (CQLR, chapter R-20).

- the multiplication of large-scale operations carried out against traditional organized crime by Revenu Québec and the Autorité des marchés financiers, in collaboration with the Unité permanente anticorruption;

- the investigations conducted subsequent to and during the hearings before the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, and the actions to be taken further to the revelations;

- the challenges for the judicial system, in particular with respect to administering the often complex and massive amount of evidence stemming from the fight against economic and financial crime.

Thus, the effort deployed to counter tax evasion and economic and financial crime has brought prosecuting bodies to a level of activity, respecting the number of investigations conducted and the number of cases brought before the courts, which impacts the case management capacity of the judicial system.

☐ Issues stemming from the increase in penal cases

The efficacy of the overall effort put into fighting tax evasion depends, in part at least, on the ability of the Court of Québec to hear financial penal cases within a reasonable time.

Decisions of the Criminal and Penal Division of the Court of Québec are necessary, in particular, to:

- recover unpaid amounts;

- ensure the conviction of individuals who break tax laws, laws respecting the construction sector and laws governing Québec's financial sector;

- deter the rest of the population from engaging in tax evasion and economic and financial crime.

Long delays can also lead to a stay of proceedings.

- If the justice system were unable to handle cases in a reasonable time, efforts to fight tax evasion and financial crime would be in vain.

Excessive delays have a direct impact on victims of economic and financial crime, and undermine their trust in the judicial system. This is because a number of years generally elapse between the occurrence of the prejudice and the conviction of the perpetrators of the crime.

- This situation could prompt victims not to report the offences to the authorities or affect their ability to testify correctly at trial.

3.2 Measures at the Ministère de l'Emploi et de la Solidarité sociale

The Ministère de l'Emploi et de la Solidarité sociale handles more than 300 000 last resort financial assistance files every year.

Consequently, to foster payment of assistance benefits to people who are genuinely entitled to them, the Ministère de l'Emploi et de la Solidarité sociale intends, in particular, to:

- carry out more investigations into network fraud scams in order to put an end to them;
- continue and step up the fight against unreported work relative to employment agencies.

3.3 Funding

To support the implementation of measures designed to expedite penal case management and enhance the efficacy of measures at the Ministère de l'Emploi et de la Solidarité sociale, the government will allocate an additional amount to the Provision to increase any appropriation for initiatives concerning revenue. In that regard, another $10 million a year in funding will be allocated, as of 2014-2015, to the spending budget of the Ministère des Finances et de l'Économie du Québec.

Section H

REPORT ON THE APPLICATION OF THE LEGISLATION RESPECTING A BALANCED BUDGET AND THE GENERATIONS FUND

1. The *Balanced Budget Act* H.3

- 1.1 Current stipulations and requirements of the Act H.3
- 1.2 The budgetary balance within the meaning of the *Balanced Budget Act* H.4
- 1.3 Amendment of the *Balanced Budget Act* H.6
- 1.4 Status of the stabilization reserve H.6

2. The *Act to reduce the debt and establish the Generations Fund* H.7

- 2.1 Maintaining the debt reduction objectives H.7
- 2.2 Sums dedicated to the Generations Fund H.11
- 2.3 Use of the Generations Fund to repay maturing borrowings H.11

1. THE *BALANCED BUDGET ACT*

Under the *Balanced Budget Act*, the Minister of Finance and the Economy must report to the National Assembly, in the budget speech, on the achievement of the objectives of the Act and any variance recorded.

1.1 Current stipulations and requirements of the Act

The purpose of the *Balanced Budget Act* is to oblige the government to maintain a balanced budget and, to that end, to table balanced budgetary forecasts. The Act sets forth the applicable rules in the case of an overrun.

The *Balanced Budget Act*

The *Balanced Budget Act* (CQLR, chapter E-12.00001) was passed unanimously by the National Assembly of Québec on December 19, 1996. The Act stipulates that the government must table balanced budget estimates and sets forth the applicable rules in the case of an overrun.

In 2009, the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (S.Q. 2009, chapter 38) substantially amended the *Balanced Budget Act* to, among other things, introduce specific provisions to allow the government to weather the recession and authorize deficits that would have to be reduced gradually in order to return to a balanced budget in 2013-2014.

Under the Act, if an overrun of less than $1 billion is recorded for a fiscal year, the government must achieve an equivalent surplus in the next fiscal year.

The Act stipulates that the government may incur overruns for a period of more than one year, where such overruns total at least $1 billion as a result of circumstances defined in the Act, namely, a disaster having a major impact on revenue or expenditure, a significant deterioration of economic conditions or a change in federal programs of transfer payments to the provinces that would substantially reduce transfer payments to the government. The government must then apply an offsetting financial plan ensuring that the overruns will be compensated for within a five-year period.

If there is an overrun of at least $1 billion, the Minister of Finance and the Economy must report to the National Assembly on the circumstances justifying that the government incur such overruns. In addition, the Minister must present a financial plan allowing those overruns to be offset within the five-year period and apply offsetting measures covering at least $1 billion as of the fiscal year in which such an overrun is anticipated, or during the following year in the case of an actual overrun. The Minister must offset at least 75% of those overruns within the first four fiscal years of that period.

In addition, the Act stipulates henceforth that entries posted to the net debt must be taken into account in calculating the budgetary balance, except where such entries result from changes made to the accounting policies of the government or any of its enterprises so as to bring them into compliance with a new standard of the Canadian Institute of Chartered Accountants.

Lastly, the Act stipulates that the Minister of Finance and the Economy must report to the National Assembly, in the budget speech, on the objectives of the Act, their achievement and any variance recorded, and on the operations of the stabilization reserve.

1.2 The budgetary balance within the meaning of the *Balanced Budget Act*

Under the *Balanced Budget Act*, the government achieves the objectives of the Act if the budgetary balance, calculated in accordance with the Act, is zero or positive. Table H.1 shows the components for establishing the budgetary balance within the meaning of the Act.

Budgetary balance within the meaning of the Act was maintained from 2006-2007 to 2008-2009.

In 2009-2010 and 2010-2011, the budgetary balance within the meaning of the *Balanced Budget Act* was a deficit of $3.2 billion, as allowed under the Act.

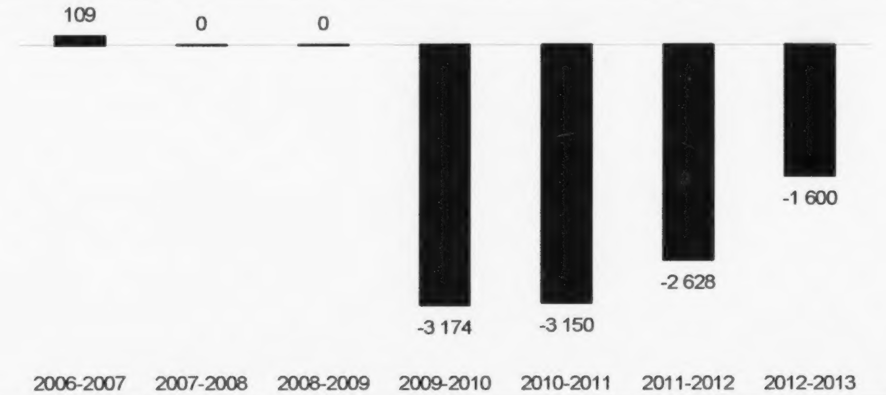
In 2011-2012, the budgetary balance was a deficit of $2.6 billion—an improvement of $1.2 billion compared to the target of $3.8 billion set pursuant to the *Balanced Budget Act*.

For 2012-2013, the actual results in the public accounts indicate a budgetary deficit of $1.6 billion—a difference of $100 million in relation to the objective of $1.5 billion indicated in the March 2013 *Update* and corresponding to the target set in accordance with the *Balanced Budget Act*.

— In addition, the *Balanced Budget Act* was amended in June 2013 to exclude, in the calculation of the budgetary balance for 2012-2013, the result of $1.9 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant.

CHART H.1

Budgetary balance from 2006-2007 to 2012-2013[1]
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

1.3 Amendment of the *Balanced Budget Act*

To avoid hampering economic growth, the government decided to delay for two years the achievement of a balanced budget, which had been forecast for 2013-2014.

In this context, the government will propose amendments to the *Balanced Budget Act* in order to set the budgetary deficit objectives to be met in 2013-2014 and 2014-2015 and to delay the return to a balanced budget to fiscal year 2015-2016. As forecast in the financial framework for Budget 2014-2015:

- the budgetary deficit for 2013-2014 stands at $2.5 billion;
- the budgetary deficit will be reduced to $1.75 billion in 2014-2015;
- the budget will be balanced as of 2015-2016.

These deficits, which must be added to the debt, will total $4.25 billion. However, to avoid jeopardizing the attainment of the debt reduction objectives by 2025-2026, the government will maintain the deposits in the Generations Fund from 2013-2014 to 2015-2016 and will increase them by $425 million per year starting in 2016-2017.

In addition, the legislative amendments will take into account the overrun of $100 million relative to the objective of $1.5 billion established in accordance with the Act for 2012-2013.

1.4 Status of the stabilization reserve

There have been no transactions in the stabilization reserve since 2009-2010.

2. THE *ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND*

2.1 Maintaining the debt reduction objectives

Budget 2014-2015 confirms the maintenance of the debt reduction objectives[1] set forth in the *Act to reduce the debt and establish the Generations Fund* for fiscal year 2025-2026:

— the gross debt must not exceed 45% of GDP;

— the debt representing accumulated deficits must not exceed 17% of GDP.

❑ Additional deposits in the Generations Fund as of 2016-2017 stemming from the specific tax on alcoholic beverages

To fully offset the impact on the debt of additional deficits of $4.25 billion arising from the two-year postponement of the return to a balanced budget, additional deposits of $425 million per year will be made in the Generations Fund as of 2016-2017.

These additional deposits will be drawn from revenues from the specific tax on alcoholic beverages, which represents a stable source of revenue for the government.

These contributions of $425 million starting in 2016-2017 will be over and above the deposits of $100 million per year as of 2014-2015, stemming from the specific tax on alcoholic beverages, as announced by the government in Budget 2013-2014 and brought into effect by Bill 25 (S.Q. 2013, chapter 16), assented to on June 14, 2013.

Legislative amendments will be made to the *Act to reduce the debt and establish the Generations Fund* in order to allocate the additional deposits of $425 million to the Generations Fund starting in 2016-2017.

❑ Deposit of revenues from the indexation of the price of heritage electricity in the Generations Fund

The passage of Bill 25 also made it possible to implement the announcement made by the government in Budget 2013-2014 to deposit revenues relating to the indexation of the price of heritage electricity, starting in 2014, in the Generations Fund as of 2014-2015.

These deposits will be $71 million in 2014-2015, $165 million in 2015-2016, $265 million in 2016-2017, $370 million in 2017-2018 and $475 million in 2018-2019.

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[1] Section E provides detailed information on the Québec government's debt.

☐ Deposit in the Generations Fund of all mining revenues collected by the government

The legislative amendments made in June 2013 will also make it possible to deposit in the Generations Fund all mining revenues collected by the government starting in 2015-2016, as announced in Budget 2013-2014.

Mining revenue deposits will represent $115 million in 2015-2016, $150 million in 2016-2017, $240 million in 2017-2018 and $340 million in 2018-2019.

☐ Deposits in the Generations Fund resulting from the closure of Gentilly-2

Lastly, Bill 25 gave effect to the government's announcement in Budget 2013-2014 to deposit in the Generations Fund an amount of $215 million per year, from 2017-2018 to 2043-2044, corresponding to Hydro-Québec's savings resulting from the closure of the Gentilly-2 nuclear power plant.

Requirements of the Act

The *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1) was passed on June 15, 2006. This statute established the Generations Fund, a fund dedicated exclusively to repaying the gross debt.

In 2010, the Act was amended to revise the concepts of debt used and the debt reduction objectives that must be achieved by 2025-2026.

The Act stipulates that, for fiscal year 2025-2026, the gross debt may not exceed 45% of GDP and the debt representing accumulated deficits may not exceed 17% of GDP.

Under the current provisions of the Act, which do not yet take into account the amendments provided for in Budget 2014-2015, the Generations Fund is constituted of the following amounts from revenue sources dedicated to debt repayment:

- water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- part of Hydro-Québec's earnings on the sale of electricity outside Québec as a result of its increased generating capacity;[1]
- revenues from the indexation of the price of heritage electricity as of 2014;
- fees or charges for water withdrawal;[1]
- as of 2015-2016, the total of fees, duties, rentals and mining royalties provided for in the *Mining Tax Act* and the *Mining Act*. This amount will be established once the duties allocated to the mining heritage and mining activity management components of the Natural Resources Fund have been subtracted. For 2014-2015, the amount of mining revenues allocated to the Generations Fund will correspond to one quarter of the amount by which the sums collected by the government exceed $200 million in accordance with the above statutes;
- as of 2014-2015, $100 million per year from the specific tax on alcoholic beverages;
- from 2017-2018 to 2043-2044, $215 million per year corresponding to Hydro-Québec's savings resulting from the closure of the Gentilly-2 nuclear power plant;
- sale of government assets, rights or securities;[1]
- unclaimed property administered by the Minister of Revenue;
- gifts, legacies and other contributions received by the Minister of Finance and the Economy;
- income generated by the investment of the sums making up the Fund.

The *Act to reduce the debt and establish the Generations Fund* also allows the government to order that a part, which it establishes, of any sum that would otherwise have been attributed to the general fund of the Consolidated Revenue Fund be allocated to the Generations Fund.

Requirements of the Act (cont.)

Similarly, that Act authorizes the government, subject to the provisions of the *Balanced Budget Act*, to use the stabilization reserve to deposit amounts in the Generations Fund.

The amounts constituting the Fund are deposited with the Caisse de dépôt et placement du Québec and managed in accordance with an investment policy determined by the Minister of Finance and the Economy, in collaboration with the Caisse.

Lastly, the Act stipulates that the Minister of Finance and the Economy must report to the National Assembly, in the budget speech, on the evolution of the debt representing accumulated deficits and the gross debt, on the amounts constituting the Fund and, if need be, those used to repay the gross debt.

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[1] An order in council of the government is required to set the portion of these amounts that must be allocated to the Generations Fund.

2.2 Sums dedicated to the Generations Fund

In 2013-2014, $1 372 million will be devoted to the Generations Fund, that is, $1 072 million from revenue sources dedicated to the Fund, to which will be added $300 million resulting from the allocation of part of the accumulated surplus from the Territorial Information Fund of the Ministère des Ressources naturelles.

For 2014-2015 and 2015-2016, the revenue of the Generations Fund should reach, respectively, $1 296 million and $1 642 million.

2.3 Use of the Generations Fund to repay maturing borrowings

As forecast in Budget 2013-2014, the government used $1 billion of the Generations Fund in 2013-2014 in order to repay maturing borrowings.

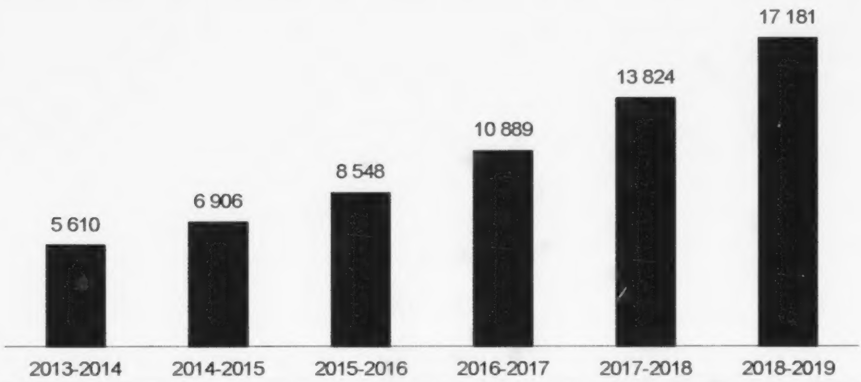
Taking into account the deposits since its creation and those forecast for the coming years, as well as the use of the Generations Fund to repay maturing borrowings, the book value of the Generations Fund will reach:

- $5 610 million as at March 31, 2014;
- $6 906 million as at March 31, 2015;
- $8 548 million as at March 31, 2016.

The Generations Fund should reach $17 181 million as at March 31, 2019.

CHART H.2

Growth in the book value of the Generations FundP
(millions of dollars)



P: Preliminary results for 2013-2014 and forecasts for subsequent years.

TABLE H.2

Generations Fund

(millions of dollars)

	November 2013 *Update*		Budget 2014-2015^P					
	2013-2014	Adjustments	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
BOOK VALUE, BEGINNING OF YEAR	**5 238**	**—**	**5 238**	**5 610**	**6 906**	**8 548**	**10 889**	**13 824**
DEDICATED REVENUES								
Water-power royalties								
Hydro-Québec	668	—	668	661	678	691	708	726
Private producers	92	–1	91	90	92	94	96	98
	760	–1	759	751	770	785	804	824
Indexation of the price of heritage electricity	—	—	—	71	165	265	370	475
Mining revenues	—	—	—	—	115	150	240	340
Tax on alcoholic beverages	—	—	—	100	100	525	525	525
Savings relative to the closure of Gentilly-2	—	—	—	—	—	—	215	215
Unclaimed property	15	4	19	9	9	9	9	9
Investment income	294	—	294	365	483	607	772	969
Total of dedicated revenues	**1 069**	**3**	**1 072**	**1 296**	**1 642**	**2 341**	**2 935**	**3 357**
Deposit from the Territorial Information Fund	300	—	300	—	—	—	—	—
Total of deposits	**1 369**	**3**	**1 372**	**1 296**	**1 642**	**2 341**	**2 935**	**3 357**
Use of the Generations Fund to repay maturing borrowings	–1 000	—	–1 000	—	—	—	—	—
BOOK VALUE, END OF YEAR	**5 607**	**3**	**5 610**	**6 906**	**8 548**	**10 889**	**13 824**	**17 181**

P: Preliminary results for 2013-2014 and forecasts for subsequent years.

Section I

ADDITIONAL INFORMATION ON THE FISCAL MEASURES

1. **Measures to increase the investments of Capital régional et coopératif Desjardins in territories facing economic difficulties I.3**

2. **Change to the refundable tax credit to foster the modernization of the tourism accommodation offering I.11**

3. **Harmonization with certain measures of the federal budget of February 11, 2014 .... I.13**

1. MEASURES TO INCREASE THE INVESTMENTS OF CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS IN TERRITORIES FACING ECONOMIC DIFFICULTIES

Capital régional et coopératif Desjardins is an investment corporation whose mission is to marshal development capital for Québec's resource regions and the cooperative movement.

Capital régional et coopératif Desjardins, through its sustained presence in the resource regions, helps stimulate regional economic development. As a result, over the years, it has become a valuable tool for small and medium-size enterprises in the regions that need capital to develop and reach maturity.

Since Capital régional et coopératif Desjardins was formed, the government has supported its mission by allowing individuals who acquire its shares to claim a tax benefit. This benefit, which consists of a non-refundable tax credit, is designed to encourage individuals to participate in Québec's economic development.

Since Capital régional et coopératif Desjardins' financing is facilitated by granting a tax benefit, an investment requirement was included in its statute of incorporation[1] to ensure, in particular, that the funds collected are used as a financing tool contributing to the development of Québec entities.

This requirement stipulates that, for each fiscal year, the eligible investments of Capital régional et coopératif Desjardins – that include no security bond or hypothec – must represent, on average, at least 60% of its average net assets for the preceding fiscal year, and that a portion, hereunder called "regional component", representing at least 35% of such percentage must be made in eligible cooperatives or in entities located in Québec's resource regions.[2]

For the purposes of the regional component of the investment requirement, the regions of Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie–Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay–Lac-Saint-Jean are considered resource regions.

Over the years, the statute of incorporation of Capital régional et coopératif Desjardins has been amended to better adapt it to the capital requirements of Québec companies and to enable the corporation to play a larger role in the economy.

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[1] *Act constituting Capital régional et coopératif Desjardins* (CQLR, chapter C-6.1).

[2] If any component of the investment requirement is not satisfied for a given fiscal year, Capital régional et coopératif Desjardins becomes subject to a special tax.

Given that Capital régional et coopératif Desjardins sees itself as a major partner in the strategy favouring territories facing economic difficulties the government has put in place, various amendments will be made to its statute of incorporation to provide it with the necessary tools to fulfil its role as an investor in small and medium-size enterprises established in such territories.

❑ Investment in territories facing economic difficulties

Currently, 7 of Québec's 17 administrative regions are considered resource regions for the purposes of the regional component of Capital régional et coopératif Desjardins' investment requirement. Because of their distance from large urban centres, these regions form a geographic and economic entity with common features and problems.

The fact that manufacturing activities are less developed there than elsewhere in Québec, that development of their resources depends on the global situation and that businesses established there do not always have adequate financing to prosper slows their economic development.

These problems, which compound other difficulties, demographic ones in particular, have an impact on the vitality of almost two thirds of the regional county municipalities and agglomerations that make up these regions.

While not part of any of the seven regions recognized as resource regions, many other regional county municipalities are also facing substantial economic difficulties, whether as a result of insufficient industrial diversification or lack of new businesses.

In these territories, obtaining the financing needed to carry out investment projects is a major challenge, especially for small businesses.

Accordingly, to reflect the importance of the role that Capital régional et coopératif Desjardins can play in financing businesses established in territories with the lowest economic development indices over the past few years, whether or not they are in a resource region, various amendments will be made to its statute of incorporation.

Recognition of RCMs outside resource regions facing economic difficulties

The *Act constituting Capital régional et coopératif Desjardins* will be amended to stipulate that an investment that is otherwise eligible made, after the day of the Budget Speech and before January 1, 2018, in an entity located in a regional county municipality facing economic difficulties whose name is included in the table below will be considered, for the purposes of Capital régional et coopératif Desjardins' investment requirement, as having been made in an entity located in a resource region.

TABLE I.1

List of regional county municipalities outside resource regions facing economic difficulties

- Acton RCM
- Antoine-Labelle RCM
- Appalaches RCM
- Argenteuil RCM
- Coaticook RCM
- Etchemins RCM
- Granit RCM
- Haut-Saint-François RCM
- Haut-Saint-Laurent RCM
- La Vallée-de-la-Gatineau RCM
- L'Islet RCM
- Matawinie RCM
- Montmagny RCM
- Papineau RCM
- Pontiac RCM
- Sources RCM

Increase in the amount of investments

Investments in eligible entities

The *Act constituting Capital régional et coopératif Desjardins* will be amended to stipulate that an investment that includes no security bond or hypothec made by Capital régional et coopératif Desjardins, after the day of the Budget Speech and before January 1, 2018, in an eligible entity[3] located in a territory identified as facing economic difficulties will, up to an amount of $500 000, be deemed grossed up by 100% for the purposes of the investment requirement.

In this regard, investments agreed after the day of the Budget Speech and before January 1, 2018 and for which amounts have been committed, but not yet disbursed at the end of a given fiscal year, will be deemed to have been made by Capital régional et coopératif Desjardins. For greater clarity, these investments will be included in the calculation of the 12% authorized limit applicable to non-disbursed investments.

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[3] Briefly, for the purposes of the *Act constituting Capital régional et coopératif Desjardins*, an eligible entity means an eligible cooperative, a corporation or partnership that carries on an active business, the majority of whose employees reside in Québec and whose assets are less than $100 million or net equity is less than $50 million, other than an eligible cooperative or a corporation or partnership all of whose activities consist mainly in making investments.

TABLE H.1

Budgetary balance within the meaning of the *Balanced Budget Act*

(millions of dollars)

							Stabilization reserve		
Fiscal year	Surplus (deficit) reported in the public accounts (1)	Extraordinary loss relative to Gentilly-2	Generations Fund	Accounting changes	Budgetary balance within the meaning of the Act before reserve	Annual surplus	Allocations	Uses	Budgetary balance within the meaning of the Act after reserve(2)
2006-2007	1 993	—	–584	—	1 409	1 409	1 300(3)	—	109
2007-2008	1 650	—	–449	—	1 201	1 201	1 201	—	0
2008-2009	–1 258	—	–587	—	–1 845	—	109(4)	1 845	0
2009-2010	–2 940	—	–725	58	–3 607	—	—	433	–3 174(5)
2010-2011	–2 390	—	–760	—	–3 150	—	—	—	–3 150(5)
2011-2012	–1 788	—	–840	—	–2 628	—	—	—	–2 628(6)
2012-2013	–2 515	1 876	–961	—	–1 600	—	—	—	–1 600(7)
2013-2014[P]	–1 428	—	–1 072	—	–2 500	—	—	—	–2 500(8)

P: Preliminary results.

(1) The amounts correspond to those established in the government's annual consolidated financial statements, without taking into account the adjustments made in subsequent years for the fiscal year concerned.

(2) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to and uses of the stabilization reserve.

(3) In 2006-2007, only $1.3 billion was allocated to the stabilization reserve in accordance with the then current legislation. Under the *Balanced Budget Act*, the total surplus for each fiscal year is now allocated to the stabilization reserve.

(4) In accordance with section 32 of the Act (S.Q. 2009, chapter 38), the sum of $109 million, corresponding to the difference between the recorded surplus and the anticipated surplus for 2006-2007, was allocated to the stabilization reserve in 2008-2009

(5) In accordance with the *Balanced Budget Act*, the obligation to attain a balanced budget was suspended in 2009-2010 and in 2010-2011.

(6) For 2011-2012, the budgetary deficit of $2.6 billion represents an improvement of $1.2 billion compared to the budgetary deficit target of $3.8 billion set in the March 2011 budget pursuant to the *Balanced Budget Act*.

(7) For 2012-2013, the budgetary deficit of $1.6 billion is $100 million higher than forecast compared to the target of $1.5 billion established in the March 2011 budget.

(8) For 2013-2014, the Act stipulates that the revenue and expenditures established in accordance with the government's accounting policies must be balanced. Amendments will have to be made to the *Balanced Budget Act* to authorize the government to delay the return to a balanced budget to 2015-2016.

- **Investments made through a limited partnership**

While a limited partnership all of whose activities consist mainly in making investments is not an eligible entity[4] for the purposes of Capital régional et coopératif Desjardins' investment requirement, this type of investment vehicle is nonetheless present in many categories of eligible investment.

For limited partnership recognized because of the partnerships they help create, all of the contribution made to the partnership is generally considered an eligible investment for the purposes of the investment requirement.[5]

For the others, only the portion of the amounts paid to the limited partnership by Capital régional et coopératif Desjardins that results in an investment in an eligible entity may be considered an eligible investment for the purposes of the investment requirement. In such a case, an investment is considered eligible if the investment – that includes no security bond or hypothec – is made in an eligible entity through a limited partnership in which Capital régional et coopératif Desjardins holds an equity stake, directly or through another limited partnership, up to the proportion of the direct or indirect equity stake of Capital régional et coopératif Desjardins in the limited partnership that made such investment.

Accordingly, to better recognize the investments made through a limited partnership in eligible entities located in a territory identified as facing economic difficulties, changes will be made to the calculation of Capital régional et coopératif Desjardins' investment requirement.

On the one hand, the *Act constituting Capital régional et coopératif Desjardins* will be amended to stipulate that the amount of investments made by Capital régional et coopératif Desjardins in a limited partnership that are otherwise eligible will be increased by its share in any investment that includes no security bond or hypothec made, after the day of the Budget Speech and before January 1, 2018, in an eligible entity located in a territory identified as facing economic difficulties through the limited partnership, up to $500 000 per investment.

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[4] See the preceding note.

[5] The Fonds Relève Québec, S.E.C., the Société en commandite Essor et Coopération, Capital croissance PME II S.E.C. as well as certain local venture capital funds created and managed in Québec are all examples of limited partnerships recognized for the purposes of the investment requirement.

On the other hand, it will be amended to stipulate that Capital régional et coopératif Desjardins' share in any investment that includes no security bond or hypothec made, after the day of the Budget Speech and before January 1, 2018, in an eligible entity located in a territory identified as facing economic difficulties through a limited partnership in which it holds an equity stake, directly or through another limited partnership will, up to an amount of $500 000, be deemed grossed up by 100% for the purposes of the investment requirement.

■ Territories identified as facing economic difficulties

For the purposes of the gross-up relating to an investment made in a territory identified as facing economic difficulties, the following territories will be considered as such: the territories of the Kativik Regional Government,[6] the Eeyou Istchee James Bay Regional Government,[7] the urban agglomeration of La Tuque,[8] the urban agglomeration of Îles-de-la-Madeleine,[9] the Ville de Shawinigan as well as the regional county municipalities named in the following table.

TABLE I.2

List of regional county municipalities facing economic difficulties

Abitibi-Ouest RCM
Acton RCM
Antoine-Labelle RCM
Appalaches RCM
Argenteuil RCM
Avignon RCM
Basques RCM
Bonaventure RCM
Coaticook RCM
Domaine-du-Roy RCM
Etchemins RCM
Golfe-du-Saint-Laurent RCM
Granit RCM
Haut-Saint-François RCM
Haut-Saint-Laurent RCM
Kamouraska RCM
La Côte-de-Gaspé RCM
La Haute-Côte-Nord RCM
La Haute-Gaspésie RCM
La Matanie RCM
La Matapédia RCM
La Mitis RCM
La Vallée-de-la-Gatineau RCM
L'Islet RCM
Maria-Chapdelaine RCM
Maskinongé RCM
Matawinie RCM
Mékinac RCM
Montmagny RCM
Papineau RCM
Pontiac RCM
Rocher-Percé RCM
Sources RCM
Témiscamingue RCM
Témiscouata RCM

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[6] *Act respecting Northern villages and the Kativik Regional Government* (CQLR, chapter V-6.1).

[7] *Act establishing the Eeyou Istchee James Bay Regional Government* (CQLR, chapter G-1.04).

[8] According to section 8 of the *Act respecting the exercise of certain municipal powers in certain urban agglomerations* (CQLR, chapter E-20.001), the urban agglomeration of La Tuque consists of the territories of the Ville de La Tuque, the Municipalité de La Bostonnais and the Municipalité de Lac-Édouard.

[9] According to section 9 of the *Act respecting the exercise of certain municipal powers in certain urban agglomerations*, the urban agglomeration of Îles-de-la-Madeleine consists of the territories of the Municipalité des Îles-de-la-Madeleine and the Municipalité de Grosse-Île.

☐ Changes to government assistance for capitalization

According to the *Act constituting Capital régional et coopératif Desjardins*, this corporation can raise a maximum amount of $150 million per capital-raising period,[10] as long as it has not reached, for the first time, at the end of a capital-raising period, at least $1.25 billion on account of paid-up capital regarding issued and outstanding shares and fractions of shares.

Once past the threshold, the maximum amount that Capital régional et coopératif Desjardins can collect for a capital-raising period corresponds to the reduction, up to $150 million, of its paid-up capital attributable to redemptions or purchases by agreement made during the preceding capital-raising period.

However, according to the financial information available for 2013, everything indicates that at the end of the current capital-raising period, the capitalization of Capital régional et coopératif Desjardins will exceed $1.25 billion, which will limit the amount it may issue in its next capital-raising period to a level well below $150 million.

Accordingly, to allow Capital régional et coopératif Desjardins to continue investing in small and medium-size enterprises, especially those established in the resource regions and in territories facing economic difficulties, the corporation will retain the right to collect a maximum of $150 million for the capital-raising period beginning March 1, 2014 and ending February 28, 2015.

For greater clarity, for each subsequent capital-raising period, Capital régional et coopératif Desjardins will continue to be authorized to collect the lesser of $150 million or the amount corresponding to the reduction in paid-up capital attributable to all of the shares and fractions of shares that were redeemed or purchased by agreement by the corporation during the preceding capital-raising period.

Moreover, in view the fact that Capital régional et coopératif Desjardins, given its mission, has had good historical returns, the applicable rate for the purposes of the calculation of the tax credit for the acquisition of its shares will be reduced from 50% to 45% for shares acquired after February 28, 2014. Accordingly, the maximum amount an individual may deduct in calculating his tax otherwise payable for a given taxation year, for shares acquired during a capital-raising period beginning in such year, will decline from $2 500 to $2 250.

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[10] A capital-raising period begins March 1 of a year and ends the last day of February of the following year.

■ Consequential change to the special tax relating to the recovery of the tax credit for the purchase of shares

The tax legislation stipulates that where a share (including a fraction of a share) is redeemed or purchased by Capital régional et coopératif Desjardins less than seven years after it was issued, the person who purchased the share, hereunder called the "taker", or the person to whom such share was passed on to by succession must generally pay, for the taxation year during which the redemption or purchase is made, a tax equal to the amount obtained by applying, to the lesser of the specified portion of the amount paid by the taker to acquire the share and the price paid by the corporation for its redemption or its purchase by agreement, the percentage attributable to the number of days the share was not held.[11]

Currently, to obtain the specified portion of the amount paid by a taker to acquire a share, a rate of 50% must be applied to the amount paid for the purchase of the share, unless the share was issued after March 23, 2006 and before November 10, 2007, in which case the applicable rate is 35%.

To reflect the fact that the rate applicable for the purposes of calculating the tax credit will decline from 50% to 45%, the tax legislation will be amended to stipulate that the applicable rate for obtaining the specified portion of the amount paid by a taker to acquire a share of Capital régional et coopératif Desjardins will correspond to:

- 50% where the share was issued before March 24, 2006 or after November 9, 2007 and before March 1, 2014;
- 35% where the share was issued after March 23, 2006 and before November 10, 2007;
- 45% where the share is issued after February 28, 2014.

■ Consequential change to the special tax relating to excessive capitalization

The tax legislation stipulates that, where, at the end of a given capital-raising period, the amount of paid-up capital regarding all the shares and fractions of shares issued by Capital régional et coopératif Desjardins during such period exceeds the maximum amount it is authorized to collect for such period, the corporation must pay, no later than the May 31 following the end of such period, a special tax equal to 50% of the amount by which the paid-up capital regarding all of the shares and fractions of shares issued during the capital-raising period exceeds the maximum amount it is authorized to collect for such period.

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[11] This percentage is obtained by dividing, by 2 556, the amount by which 2 556 exceeds the number of days included in the period beginning the day the share is issued and ending the day of its redemption or purchase by agreement.

For a capital-raising period beginning after February 28, 2014, the applicable rate for the purposes of calculating such special tax will decline from 50% to 45% to reflect the reduction in the tax assistance allowed for the acquisition of shares issued by Capital régional et coopératif Desjardins.

2. CHANGE TO THE REFUNDABLE TAX CREDIT TO FOSTER THE MODERNIZATION OF THE TOURISM ACCOMMODATION OFFERING

The refundable tax credit fostering the modernization of the tourism accommodation offering was implemented as part of March 20, 2012 Budget Speech[12] to consolidate the accommodation offering in Québec's regions other than the greater Montréal and Québec City regions.

Briefly, this tax credit is granted to a qualified corporation that owns a hotel establishment, a tourist home, a resort, a bed and breakfast establishment or youth hostel located in Québec, outside the metropolitan Montréal and Québec City census regions,[13] and that carries out renovation or improvement work on such an establishment before January 1, 2016.[14] Similarly, it is granted to a corporation that is a member of a qualified partnership that owns such an establishment and that carries out such work before January 1, 2016.

The tax credit a qualified corporation or a corporation that is a member of a qualified partnership may receive, for a taxation year, corresponds to 25% of the amount by which the total of the qualified expenditures of the qualified corporation, for the taxation year, and of the corporation's share of the qualified expenditures of the qualified partnership of which it is a member, for a fiscal period ended in the taxation year, exceeds an annual threshold of $50 000. The limit on qualified expenditures of a corporation, for a taxation year, or a partnership, for a fiscal period, is $750 000.[15]

To further stimulate Québec's tourism potential and foster private investment in hotel infrastructures, the annual threshold of $50 000 will be replaced with a single threshold of $50 000.

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[12] MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, p. 57-66.

[13] The list of municipalities included in the metropolitan census regions of Montréal and Québec City is given in: Standard Geographical Classification (SGC), Volume 1, The Classification, 2011, no. 12-571-X in the catalogue, p. 107-109. This volume is available on Statistics Canada's website at www.statcan.gc.ca/bsolc/olc-cel/olc-cel?catno=12-571-X&lang=eng.

[14] *Taxation Act* (CQLR, chapter I-3), sec. 1029.8.36.0.107, par. 1. See the expression "expenditure relating to eligible work".

[15] Where a corporation is a member of an associated group, in a taxation year, the annual limit on qualified expenditures of $750 000 must be covered by a sharing agreement among the members of the associated group.

More specifically, the tax legislation will be amended so that the single threshold of $50 000 applicable to a corporation for a taxation year corresponds to the qualified expenditures incurred by the corporation, in the taxation year or a prior taxation year, and to its share of the qualified expenditures incurred by a qualified partnership of which it is a member, for a fiscal period ended in the taxation year or a prior taxation year of the corporation, and that total $50 000.

A corporation will be entitled to the tax credit for a taxation year only if the single threshold of $50 000 for the year is reached.

Accordingly, the amount used by a qualified corporation or a corporation that is a member of a qualified partnership to calculate the tax credit, for a taxation year, will correspond to the amount by which the total of the qualified expenditures of the qualified corporation, for the taxation year, and of the corporation's share of the qualified expenditures of the qualified partnership of which it is a member, for a fiscal period ended in the taxation year, subject to the limit on qualified expenditures, exceeds the balance of the $50 000 threshold of the corporation for the taxation years.

The balance of the $50 000 threshold of a corporation, for a taxation year, will correspond to the amount by which $50 000 exceeds the portion of the $50 000 threshold applied by the corporation against qualified expenditures for its prior taxation years.

The portion of the $50 000 threshold applied against the qualified expenditures of a corporation, for its prior taxation years, will correspond to the amount by which the total of the qualified expenditures of the qualified corporation, for its prior taxation years, and of the corporation's share of the qualified expenditures of the qualified partnership of which it is a member, for the fiscal periods ended in its prior taxation year, subject to the limit on qualified expenditures applicable for such taxation years and such fiscal periods, exceeds the portion of such expenditures regarding which the corporation received the tax credit to foster the tourism accommodation offering.

This change will apply to a taxation year of a corporation ending after the day of the budget speech.

3. HARMONIZATION WITH CERTAIN MEASURES OF THE FEDERAL BUDGET OF FEBRUARY 11, 2014

On February 11, 2014, the Minister of Finance of Canada presented the federal government's budget for 2014. This budget includes various fiscal measures that affect the tax system.

Along with the budget, the Minister of Finance of Canada tabled, in the House of Commons, supplementary information as well as notices of ways and means motions and draft amendments to various regulations[16] to amend, among others, the income tax system and the goods and services tax and harmonized sales tax system (GST/HST).

In this regard, Québec's tax legislation and regulations will be amended to incorporate some of the measures announced. However, the changes to Québec's tax system will be adopted only after the assent of any federal statute or the adoption of any federal regulations implementing the retained measures, taking into account technical amendments that may be made prior to such assent or adoption. Lastly, these changes will apply on the same dates as those for the purposes of the federal measures with which they are harmonized.

☐ Measures relating to income tax

■ Measures retained

Québec's tax legislation and regulations will be amended to incorporate, with adaptations on the basis of their general principles, the measures relating to:

1. the addition of certain expenses to the list of expenses eligible for the tax credit for medical expenses (BR 2);[17]
2. the introduction of a tax credit for volunteers participating in search and rescue activities (BR 3 to BR 6), it being understood that the tax credit conversion rate will be equal to the rate applicable to the first taxable income bracket of the personal income tax table;[18]
3. to the property used in the course of carrying on a farming business and a fishing business (BR 8);

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[16] DEPARTMENT OF FINANCE CANADA, *Economic Action Plan 2014 – The Road to Balance: Creating Jobs and Opportunities*, February 11, 2014, Annex 2, "Tax Measures: Supplementary Information, Notices of Ways and Means Motions and Draft Amendments to Various GST/HST Regulations", p. 311.

[17] The references in parentheses correspond to the number of the budget resolution (BR) of the Notice of Ways and Means Motion to Amend the *Income Tax Act* and Other Tax Legislation tabled in the House of Commons on February 11, 2014.

[18] This rate is currently 16%.

4. the tax deferral granted to certain farmers located in regions hit by drought, flooding or excessive moisture (BR 9);

5. the inclusion of certain income attributed to a minor by a partnership or a trust for the purposes of calculating tax on split income (BR 13);

6. the elimination of graduated rate taxation for certain trusts and estates (BR 14 to BR 16, BR 18, BR 19, BR 22 and BR 24 to BR 27);

7. the elimination of the 60-month exemption from the residency presumption rules that apply to non-resident trusts and from certain other related rules (BR 28 and BR 29);

8. the extension from five to ten years of the deferral period of gifts of ecosensitive land made by an individual (BR 31);

9. donations in the context of death (BR 32);

10. donations of cultural property acquired under a gifting arrangement that is a tax shelter (BR 33);

11. the registration of organizations or associations that receive gifts from foreign states that support terrorism (BR 34);

12. the change to the anti-avoidance rule concerning captive insurance corporations (BR 35);

13. the addition of new eligibility conditions to the exception relating to offshore regulated financial institutions (BR 36);

14. the change to the anti-avoidance rule currently contained in the thin capitalization rules (BR 37);

15. the increase in the thresholds determining how frequently employers must remit withholdings at source;[19]

16. the changes concerning the accelerated capital cost allowance for clean energy generation equipment to include water-current energy equipment and gasification equipment.[20]

■ Measures not retained

Some measures have not been retained because they do not correspond to the features of Québec's tax system or because Québec's tax system is satisfactory or has no corresponding provisions. These measures relate to:

— the increase in the maximum amount of expenditures eligible for the adoption expense tax credit (BR 1);

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[19] DEPARTMENT OF FINANCE CANADA, *Economic Action Plan 2014*, p. 335-336.

[20] *Ibid.*, p. 336-338.

- the extension of the mineral exploration tax credit for flow-through share investors (BR 7);
- the inclusion of income paid to an amateur athlete trust for the purposes of determining the maximum amount deductible on account of registered retirement savings plans by the trust beneficiary (BR 10);
- the automatic determination of the GST/HST credit (BR 11 and BR 12);
- consequential amendments arising from the elimination of graduated rate taxation for certain trusts and estates (BR 17, BR 20, BR 21 and BR 23);
- the extension from five to ten years of the deferral period of gifts of ecosensitive land made by a corporation (BR 30);
- the addition of a specific anti-avoidance rule concerning tax withholding on interest payments (BR 38);
- the rules on the cap applicable to transfers of pension benefits to a registered retirement savings plans where the amount of accumulated benefits has been reduced in particular because of the under-funding of the registered pension plan.[21]

❑ Measures relating to the GST/HST

Changes will be made to the Québec sales tax (QST) system to incorporate, with adaptations on the basis of its general principles, the federal measures relating to the GST/HST election for closely related persons (BR 6)[22] and those seeking to strengthen compliance with GST/HST registration (BR 7, BR 8 and the measures proposed in the Draft Amendments to Various GST/HST Regulations).

Moreover, it should be noted that the Ministère des Finances et de l'Économie has previously announced, in *Information Bulletin 2014-4* of February 12, 2014, that the QST system would be harmonized with certain changes to the GST/HST system proposed in the federal budget tabled February 11, 2014. These harmonization decisions concern the federal measures to improve the application of the GST/HST in the health care sector (BR 1 to BR 5).

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[21] *Ibid.*, p. 326-327.

[22] The references in parentheses correspond to the number of the budget resolution (BR) of the Notice of Ways and Means Motion to Amend the *Excise Tax Act* tabled in the House of Commons on February 11, 2014.